# Dutch Commerce and Chinese Merchants in Java

Colonial Relationships in Trade and Finance, 1800-1942

Alexander Claver

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*Koninklijk Instituut voor Taal-, Land- en Volkenkunde*
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# Dutch Commerce and Chinese Merchants in Java

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## Colonial Relationships in Trade and Finance, 1800–1942

*By*

Alexander Claver

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*Front cover illustration*: Sugar godown of the sugar enterprise 'Assem Bagoes' in Sitoebondo, East Java, ca. 1900. Collection Koninklijk Instituut voor Taal-, Land- en Volkenkunde (KITLV), Leiden (image code: 6017).

*Back cover illustration*: Five guilder banknote of De Javasche Bank, 1934. Front side showing a male dancer of the Wayang Wong theatre of Central Java. Back side showing batik motives and a text in Dutch, Chinese, Arabic and Javanese script warning against counterfeiting. Design by the Dutch artist C.A. Lion Cachet. Printed by Joh. Enschedé en Zonen.

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Den Haag, December 2013
Alexander Claver

ABBREVIATIONS

| | |
|---|---|
| ASNI | Algemeen Syndicaat van Suikerfabrikanten in Nederlandsch-Indië |
| BB | Binnenlandsch Bestuur |
| BENISO | Bond van Eigenaren van Nederlandsch-Indische Suikerondernemingen |
| Borsumij | Borneo-Sumatra-Handel Maatschappij |
| CS | Cultuurstelsel (Cultivation System) |
| CV | Commanditaire Vennootschap |
| DJB | De Javasche Bank |
| GDP | Gross Domestic Product |
| GG | Gouverneur-Generaal (Governor-General) |
| HSBC | Hongkong and Shanghai Banking Corporation |
| HVA | Handelsvereeniging Amsterdam |
| Internatio | Internationale Crediet- en Handelsvereeniging “Rotterdam” |
| JCJL | Java-China-Japan Lijn |
| JSV | Java Suiker Vereeniging |
| KB | Koloniale Bank |
| KHT | Kwik Hoo Tong Handelmaatschappij |
| KNMH | Koninklijke Nederlandsche Maatschappij van Havenwerken |
| KPM | Koninklijke Paketvaart Maatschappij |
| NHM | Nederlandsche Handel-Maatschappij |
| NIEM | Nederlandsch-Indische Escompto Maatschappij |
| NIGIEO | Nederlandsch-Indische Gouvernements Import en Export Organisatie |
| NIHB | Nederlandsch-Indische Handelsbank |
| NILM | Nederlandsch-Indische Landbouw Maatschappij |
| NIS | Nederlandsch-Indische Spoorwegmaatschappij |
| NISM | Nederlandsch-Indische Stoomvaart Maatschappij |
| NIVAS | Nederlandsch-Indische Vereeniging voor de Afzet van Suiker |
| NIVIG | Nederlandsch-Indische Vereeniging van Importeurs-Groothandelaren |
| NV | Naamloze Vennootschap |
| RL | Rotterdamsche Lloyd |

| | |
|---|---|
| ROCE | Return on Capital Employed |
| SMN | Stoomvaartmaatschappij 'Nederland' |
| THHK | Tiong Hoa Hwe Koan |
| VJSP | Vereenigde Javasuiker Producenten |
| VOC | Vereenigde Oost-Indische Compagnie |

# GLOSSARY

| | |
|---|---|
| *agentschap* | agency / branch (office) |
| *alun-alun* | central square of Javanese town |
| *arak* | alcohol distillate made of rice or palm juice |
| *baar* | newcomer, (expression used for a European who had recently arrived in the colony), derived from the Indonesian word *baru* = new. |
| *baba* | a person of Chinese descent born in the Straits Settlements (i.e. Malaysia and Singapore) (see also *peranakan*) |
| *bang* | a Chinese dialect group organization |
| *bangsa* | nation or race |
| *bapak* | father / sir, form of address to an older man (often shortened into *pak*) |
| *batik* | cloth with Javanese patterns, printed by means of a special dyeing technique |
| *boei* | prison |
| *bouw* | unit of square measure (1 *bouw* = 1.747 $m^2$) |
| *Binnenlandsch Bestuur* | Interior Administration, Dutch colonial civil service |
| *bupati* / *regent* | highest indigenous administrative official in Java, known collectively as *priyayi* |
| *Cabang Atas* | Chinese elite in Java |
| *Cina klontong* | pedlar of Chinese descent |
| *Cina mindering* | Chinese money lending, usury |
| *controleur* | Dutch official ranked below assistant resident |
| *cultuurbanken* | agricultural banks |
| *Cultuurstelsel* | Cultivation System |
| *desa* | village |
| *dokar* | horse-drawn buggy |
| *duit* | doit (copper coin of small denomination) |
| *erfpacht* | long lease |
| *Fukien* | Fujian, a province in Southeast China |
| *gandeng konco* | 'buddies arm-in-arm', a term referred to the Dutch-Chinese economic collaboration during colonial times in Indonesia |

| | |
|---|---|
| *gaplek* | dried cassava |
| *gemeente* | municipality |
| *gudang* | godown or warehouse |
| *gula batu* | lump sugar |
| *gula mangkok* | palm or cane sugar of lesser quality |
| *haji* | title give to a Muslim who has made the pilgrimage to Mecca |
| *handelsvere(e)niging* | trading association / trading company |
| *he(e)rendienst* | traditional obligatory labour service |
| *Hokkien* | people from *Fukien*, or dialect in south *Fukien* |
| *Huaqiao / Hoakiau* | Chinese sojourner / overseas Chinese |
| *hui* | a Chinese (business) association for mutual assistance |
| *hui kuan* | a Chinese (dialect) association |
| *inlander* | native (a derogatory term) |
| *IOU* | confession of guilt (abbrev. of 'I Owe You') |
| *junk* | Chinese vessel |
| *kabupaten* | regent's residence / regency |
| *kacang kedele* | soy bean(s) |
| *Kapitan* | the second highest rank in the Chinese officer system under the Dutch colonial administration |
| *kecu* | robber / bandit |
| *kongsi* | a Chinese (business) partnership, company, association, secret society, or other share-holding socio-economic organization |
| *krakal* | hard labour |
| *kraton* | palace / court, especially of a Javanese ruler |
| *loteng* | loft |
| *Luitenant* | the lowest rank in the Chinese officer system under the Dutch colonial administration |
| *lurah* | (Javanese) village head |
| *Majoor* | the highest rank in the Chinese officer system under the Dutch colonial administration |
| *mandur* | caretaker / overseer |
| *Nanyang* | the Chinese term for Southeast Asia (lit. 'Southern Ocean') |
| *nihonjinkai* | Japanese cultural/business association(s) |
| *Ommelanden* | environs, particularly of Batavia |

| | |
|---|---|
| *Opium Regie* | a system whereby the Dutch colonial administration controlled the production and sale of opium |
| *paal* | unit of linear measure (1 *paal* = 1,507 km) |
| *pachter* | farmer (i.e. person who holds a revenue farm) |
| *pak* | see *bapak* |
| *Pangreh Pradja* | Java's indigenous civil service, headed by a Dutch-trained bureaucratic elite (*priyayi*) (lit. 'Rulers of the Realm') |
| *pasar* | market (place) |
| *Pasisir* | the coastal region, particularly the north Java littoral |
| *passenstelsel* | pass system |
| *patungan trade* | clandestine opium trade |
| *peranakan* | Indonesia-born descendant(s) of Chinese immigrants, acculturated to varying degrees |
| *pergerakan* | (political) movement |
| *perkara* | (contested) matter |
| *picol / pikul* | unit of weight measure (1 *pikol* = 61,76 kg) |
| *pikulan* | carrying pole |
| *perintah halus* | soft command, indirect order disguised as a suggestion |
| *pribumi* | indigenous Indonesian |
| *priyayi* | hereditary Javanese aristocracy/officialdom, member of the governing elite of Java, or characteristics of that class |
| *qiaoxiang* | place of origin in China (lit. 'sojourner's home village') / emigrant communities |
| *regency* | administrative district headed by a *regent / bupati* |
| *regent* / *bupati* | highest indigenous administrative official in Java, known collectively as *priyayi* |
| *resident* | highest Dutch administrative official |
| *residentie* | administrative district headed by a *resident* |
| *revenue farm* | a colonial system of leasing the collection of government taxes to the highest bidder – usually Chinese – for a fixed period against a fixed rent |
| *sawah* | wet rice field |
| *Syahbandar* | harbourmaster |

| | |
|---|---|
| *siang boe* | Chinese reading association |
| *siang hwee* | Chinese chamber of commerce |
| *singkeh* | new arrival, China-born immigrant |
| *sluipaccoord* | secret settlement in case of business default or bankruptcy |
| *Taiwan sekimin* | person registered in Taiwan |
| *Tionghoa* | Chinese |
| *toko* | (retail) shop |
| *totok Chinese* | China-born and less acculturated Chinese, regarded as the pure Chinese. |
| *towkay / tauke*(*h*) | boss / shopkeeper (synonymous with successful Chinese businessman) |
| *Vorstenlanden* | Principalities, the four indirectly ruled states of Central Java |
| *warung* | small retail shop or stall |
| *wedana* | Javanese district head |
| *wingewest* | area of (economic) exploitation |

## CONVENTIONS

The text follows the standardized Indonesian language spelling of names, places and persons as applied since 1972. Exceptions are on occasion made when names have been altered (e.g. Batavia/Jakarta or Buitenzorg/Bogor), or when a person has preferred the traditional spelling (e.g. Soeharto). The colonial political entity comprising the Indonesian archipelago until 1942 is referred to as the Netherlands Indies. The word Indonesia(n) is used as a geographical notion, except when referring to the Republic of Indonesia as an independent country.

In general, the romanization of the many sounds represented by Chinese characters is a treacherous matter as there is no commonly accepted means of rendering names. The pronunciation varies considerably from one dialect to another whereas the Western spelling itself depends on the time period as well as the colonial setting. Since the overseas Chinese were usually better known by the dialect form of their name, the decision has been made to identify individuals by the most common dialect spelling found. In agreement with M. Godley: "To use only the Mandarin pronunciation would be to strip away their Southeast Asian identities." (Godley 1981: 8).

The following rules apply with regard to the symbols used in the text:

| | |
|---|---|
| - | no statistics available or (between two figures) inclusive |
| -(10) | minus (in combination with a number) |
| 0 | nil or less than 0.5 |
| [ ] | anything placed between brackets was added by the author |

N.B.: Detailed items in tables do not necessarily add up to totals because of rounding off.

# PANCASILA

KETUHANAN YANG MAHA ESA

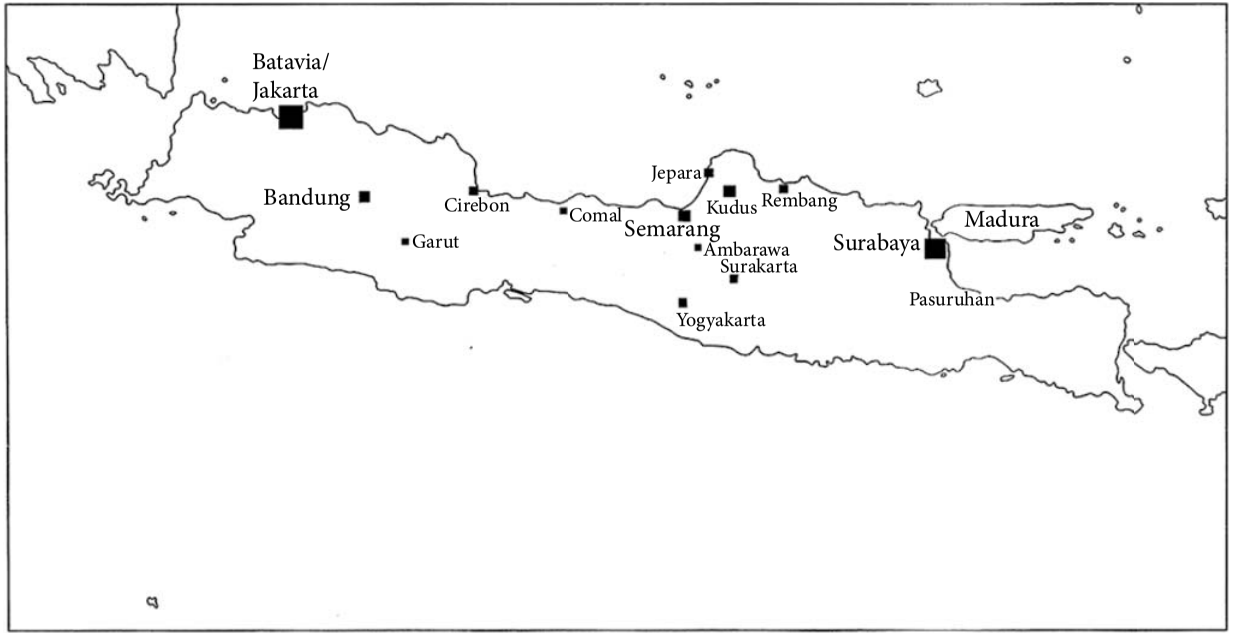
KEMANUSIAAN YANG ADIL DAN BERADAB

PERSATUAN INDONESIA

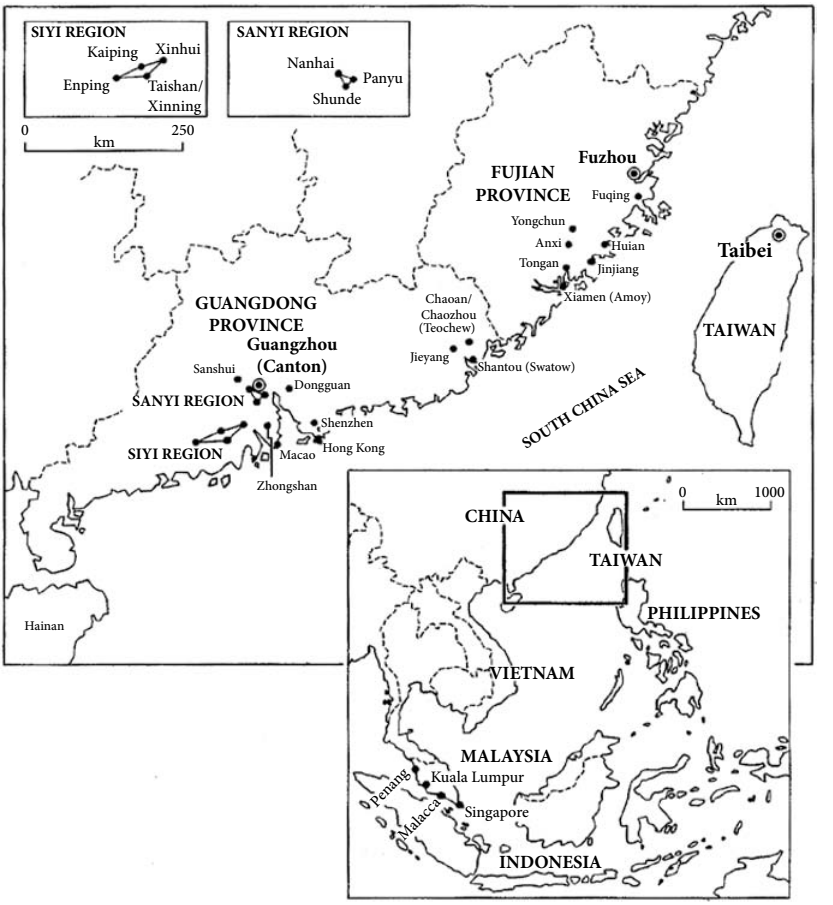
KERAKYATAN YANG DIPIMPIN OLEH HIKMAT KEBIJAK-SANAAN DALAM PERMUSYAWARATAN / PERWAKILAN

KEADILAN SOSIAL BAGI SELURUH RAKYAT INDONESIA

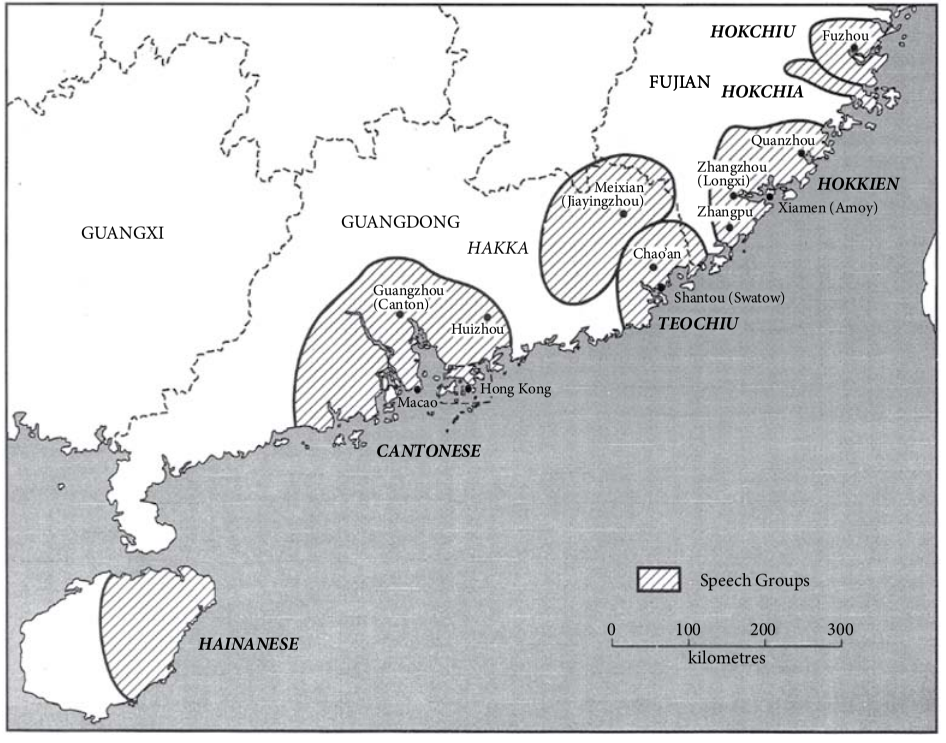
Map 1. Southeast Asia and the Indonesian archipelago.
Source: Reid (1996: x)




Map 2. The islands of Java and Madura.
Source: Vickers (2005: 34)




Map 3. Regions of origin in South China of Chinese migrants represented in Southeast Asia.
Source: Douw, Cen Huang and Godley (1999: viii)




Map 4. Main emigration areas and corresponding dialect groups in South China.
Source: Reid (1996: 50).

CHAPTER ONE

# INTRODUCTION

> No historical method is in any sense an alternative to heavy labour in historical sources. None can serve as a substitute for creativity.[1]

Trade has been a prominent feature of Indonesian history. Trading opportunities lured the Dutch to the Eastern hemisphere. Upon arrival they encountered a bustling commercial world in which the Vereenigde Oostindische Compagnie (VOC) soon found its place aided by military strength and political pressure. According to the stereotype the VOC tried to monopolize economic activity and discourage private business initiative. The colonial government of the nineteenth century is said to have done the same.

This predominance of political over economic considerations is deceptive. Private initiative was part and parcel of the economic processes at play in the Indonesian archipelago. A perpetual flow of credit formed the basis of the complex import/export trade. Protecting one's investment was of great concern to those involved, and the acquisition of information and security was crucial. In other words, there was a continuing reciprocity between credit, relevant business information and security concerns.

## *Research Outline*

This research describes and analyses the world of commercial enterprise in Java in the period 1800–1942. The importance of trade in the economic development of Indonesia is unmistakable.[2] The general question is: How did the trading sector, represented in the business activities of selected

[1] Hackett Fischer, 1970: xxi.

[2] See the surveys published by Van der Eng (1996) and J.Th. Lindblad (1989b, 1990, 1995a and 1995b). Extensive (statistical) information regarding the importance of trade can be found in Booth (1990, 1992 and 1998: 203–243), Van der Eng (2002a) and Lindblad (1986, 1988b, 1989a, 1994a, 1994b). The data show that exports constituted a very high percentage of national income. In 1925 exports reached 35% of Indonesia's GDP (Booth 1990: 280, 282). Van der Eng has calculated that the total contribution of export growth to economic growth in the period 1900–1930 was more than 50% (Van der Eng 2002a: 19).

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companies, adjust to changes in its environment? Its central focus is the role of trade finance, i.e. the flow of money between the constituent parts of the trading system. Capital and credit – with regard to availability, accessibility as well as functioning – are crucial to understanding this system.

The research aims at discerning how trading companies – loosely defined as an intermediary linking buyers and sellers – functioned and the role they performed within the economic sector. Did the entrepreneurs fulfil their task by balancing a maximum of business security with a minimum of risk? Could they live up to their own and/or others' expectation by providing a profit margin sufficient for survival? Another important question concerns the identification of the participants within the trading business. Who conducted trade and how did they cooperate with each other?

Entrepreneurial activities cannot be shielded from outside influences. Identifying the possibility for independent decision-making will clarify how the trading community (i.e. traders, trading companies and banks) adapted to the challenges posed by changing circumstances. It is argued that the trader's room for manoeuvre depends upon gaining access to capital, information and security while operating on two stages within the business arena: a formal stage, based upon contractual arrangements supported by a legal framework, and an informal stage where more fluid (networks of) relationships were maintained, based upon trust and status.[3]

The spatial focus of this study is on Java. Java is the fifth largest island within the Indonesian archipelago measuring 125,622 km$^2$ with an estimated population of 136.5 million people in 2010 (see Map 1 and 2). More than half (57.4%) of Indonesia's population of 237,6 million people lives here making it one of the most densely populated regions in the world (1062/km$^2$).[4] The two largest population groups of the island are the Javanese (± 85 million) in Central and East Java, and the Sundanese (± 31 million) in West Java. To the northeast of Java lies the island of Madura measuring 5,290 km$^2$ and inhabited by 3,600,000 people in 2010. Given Madura's poor economic resources and the island's proximity to Java over

[3] Welter (2002: 37–42) emphasizes the role of institutions and environment in explaining entrepreneurship. She highlights the institutional embedding of business behaviour which includes a formal legal and political framework and 'soft' factors such as codes of conduct, norms and values.

[4] The Netherlands measure 41,526 km$^2$ with an estimated population in 2012 of 16,730,000 people and a population density of 404/km$^2$.

6 million Madurese live in East Java (Barwegen 2005: 6–7; Cribb 2000: 2–10, 33).[5] Java is almost entirely of volcanic origin and significant parts of the island consist of deep fertile soils suitable for intensive agriculture. The wet season runs from April till July with most of the rain falling in the western part of the island (Barwegen 2005: 5–6; Cribb 2000: 11–21).

The period studied runs from 1800 till 1942. After the collapse of the VOC and arrival of the English, the nineteenth century witnessed the build-up of an economic and financial infrastructure in Java. The year 1942 saw the collapse of the colonial state and the provisional end of Dutch commercial activity with the Japanese occupation of the Netherlands Indies.

The chapters reflect developments in the (economic) history of the Indonesian archipelago. Chapter 2 gives an overview of the trading sector against the background of economic institutionalization, weak but persistent private initiative and state competition through the Cultivation System. Chapter 3 focuses on the economic crisis of 1884 and analyzes the changing relationship between capital and commerce. Chapter 4 looks at Dutch-Chinese commercial relations and discusses changing attitudes and power constellations as shown in the rise of the (Chinese) boycott. Chapter 5 highlights a period of economic progress and expanding business underpinned by speculative financial transactions and fraudulent behaviour. Chapter 6 deals with the economic crisis of the 1930s, its impact and the survival strategies of trading companies. Chapter 7 summarizes Indonesia's trading history and revisits the theme of access to capital, information and security.

### *Access to Capital, Information and Security*

The trader's room for manoeuvre depends upon his access to capital, information, and security. Forms of socio-economic networking provide significant advantages in facilitating this (Godley 1996; Smallbone and Lyon 2002: 19–20). A trade network can be defined as the number of strategic alliances a trader makes with the purpose of exchanging material and/or immaterial goods in order to ensure a profitable result of his activities (Collins 1988: 413, 447). There are several theories with regard to entrepreneurial networks (Schijf 1993: 3–5). Though different in approach these theories all acknowledge the importance of trust and status. Both

[5] See also the website (www.bps.go.id) of Indonesia's government statistical office – Biro Pusat Statistik (BPS Statistics Indonesia).

notions – best viewed as some sort of social capital[6] – serve as an illustration of the connection between economic and social activities (Menkhoff 1993).

Trust can be defined as the belief or expectation that another individual will not behave in a way that is harmful to one's interests. The importance of information and enforcement is at the core of this concept.[7] Gaining access to important factors such as capital and information is in most cases achieved by obtaining other people's trust, rather than on the basis of warranties (Henley 1997). Status on the other hand is an important prerequisite in order to be deemed reliable and/or trustworthy. Though invisible, trust and status can be singled out by looking at entrepreneurial networks.[8]

*Capital*

Capital or credit can be considered the engine propelling the trading business. The banking connection is both obvious and extremely important. Banks or financial intermediaries in general respond to information. This is crucial for their functioning and also poses their biggest problem since the process of acquiring and analysing information is difficult and costly. Informal, qualitative and case-specific information is very hard to come by and often impossible to trade. Gaining access to this kind of data however gives the mediator a distinct advantage when performing his task. (Godley and Ross 1996: 3).

The credit market is characterised by incomplete contracts. The interest a borrower agrees to pay is the price he promises to pay the lender over a period of time (Godley and Ross 1996: 2). Interest payments constitute the price tag attached to credit. The lender will only settle for this promise with the assurance of sufficient collateral. However, in order to form judgement he has to rely on specific information concerning the proposed venture. In most instance, such information can only be obtained from the borrower himself.

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[6] See www.socialcapitalgateway.org for a useful overview of the debate on social capital.

[7] Guinnane (2005: 1, 29–31) warns that the concept of trust has been used so loosely that it tends to create confusion. He argues that in economic research useful parts of the idea of trust are implicit in notions of information and the ability to impose sanctions. In other words: "I trust you in a transaction because of what I know about you, and because of what I can have done to you should you cheat me."

[8] The amount of literature on the concepts of trust, status and networks is overwhelming. The following books and articles look at this subject matter from a business point of view: Barton (1983), Casson (1995), Gambetta (1988), Menkhoff (1993), Smets (1999).

In the case of the Netherlands Indies in the nineteenth century the risks of the credit business were increased by the difficulty of obtaining security. Mortgages could not be obtained on leased lands no matter if these contracts had expiration dates of 99 years. In addition, only factory inventory could be mortgaged since this represented a retrievable capital investment (Allen and Donnithorne 1957: 186). Operating in this market called for specialised intermediaries able to assess the amount of credit to be extended. Bankers and traders thus had to develop methods to deal with asymmetric information since only the loan applicant knew the kind of details needed for a sound judgement of the request.

*Information*

All enterprises collect commercial information, but in the case of trading companies acquiring information lies at the heart of their activities.[9] Knowledge can be considered their prime asset since they do not produce physical goods. The emphasis on information instead of production helps to explain why trading enterprises are considered elusive. The conventional view of the economy is one of a system of material flow focused on the handling of physical commodities (Casson 1997: 153, 163).

Trading enterprises depend heavily on their position within wider commercial networks as these constitute their source base. This explains why traders are usually more interested in access than control. Access enables them to exert control. Commercial networks also comprise political and social elements. The successful combination of all these elements optimizes opportunities. Here, notions like personal integrity, reputation and trust surface. Ultimately, the successful functioning of a network rests on high levels of trust which are facilitated by ethnic, cultural and social background (Jones 1998: 19).

A trader handles flows of material goods on the basis of information. Much of this information is part of a routine procedure repeated at every transaction, mainly involving elements of procurement and distribution. Customer orders have to be processed, payments have to be recorded, goods have to be bought from suppliers and outstanding debts or credits filed. Though important this is not the most interesting information for the trader. Above all he has to ascertain how much his services in

[9] The retrieval of information for business purposes is considered an important management tool nowadays. This has been formalized in the concept of business intelligence (Rodenberg 1999: 35, 79–81, 157).

handling certain products are in demand and when buying/reselling products he needs to speculate or hedge against price movements during the time they are in his possession.

All this information is difficult to come by and he will have to rely on a network of contacts feeding him relevant information, ranging from confidences and gossip to newspapers and magazines (Casson 1998: 35–36). The importance of the latter can, for example, be seen from the list of subscriptions to newspapers and journals the chambers of commerce and trading associations in Batavia, Semarang and Surabaya published in their annual reports.

*Security*

There are different ways to achieve security against competitors, breach of contract, unexpected price movements, harbour strikes, etc. First, there is the possibility of institutionalised security. Insurance is an important feature in this respect and the Netherlands Indies offered attractive opportunities as many insurance companies were active, especially in Java. There was also the possibility of resorting to the legal system, which however in the colonial setting often did not live up to the traders' expectations.

Second, there is the possibility of establishing co-operative bodies. Industry and trade organisations can be particularly effective in defending the collective interest against the 'hostile' outside world. One of the ways to achieve this is by active participation in this 'hostile' world. This could be done by taking up seats in local, regulating bodies – like town councils – or advisory boards. In other cases a code of practice was established (Casson 1997: 162–163). The sugar trade in Java can serve as an example of this type of security seeking since the sector successfully organised its collective interest into co-operative bodies ([Javasuiker] 1932/1933; Allen and Donnithorne 1957: 84–85).

Mediation constitutes a core element in the trading process. In theory, other players in the economic process, such as producers and governments, can take over (parts of) this process. Despite this constant threat the trading enterprise has never been outmanoeuvred. It appears to perform a function that can only be acquired at great cost. Most authors tend to locate this specific quality in the acquisition of (relevant) knowledge. The notion of access offers good opportunities in clarifying this process by showing how traders fight their battles with regard to the procurement of capital, information and security.

## *The Indonesian Case*

Some features of trade require attention. First, there is the distinction between import and export. The trading company can focus on both aspects, or limit itself to one of the two. The well-known Dutch company Internatio did both, but the German company Erdmann and Sielcken concentrated itself on exports, primarily sugar ([Internatio] 1913; [Internatio] 1938; Schmiedell 1924). In the colonial trade general trading companies and specialized ones existed side by side.[10] The large successful general trading company has received most of the attention, although most trading outfits were small and focused on a limited range of products.

Second, there is the difference between wholesale and retail trade. Most European traders in the Netherlands Indies were wholesale traders. Neither willing nor able to compete in the local intermediate trade, European traders provided middlemen with merchandise on credit in the expectation that their products would thus reach the consumer market.[11] The intermediate trade was traditionally the domain of the Chinese, although Arab and Japanese merchants participated as well.[12] Chinese predominance owed much to their cultural background and ethnic minority position which seems to have favoured the development of certain business skills, as well as their extensive family and business contacts which gave them unrivalled access to intra- and extra-archipelago trade networks.[13]

Third, in the case of imports intermediate trade was tantamount to distributive trade or the so-called second hand (*tweede hand*).[14] There

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[10] A general trading company is defined here as a firm active in both import and export that will trade all kinds of goods all over the world. See Yonekawa and Yoshihara (1987) and Yonekawa (1990).

[11] This had been the case from the earliest days of the VOC. Being a wholesale organization the Company could not afford to be bothered by small sales on the local market. As stated by the Governor General in 1639 the objective was not to enter the intermediate market and open the warehouses for a mere trifle at the demand of every prospective customer (Blussé 1986: 71).

[12] A description of the economic position of the Arab community in general and Arab trading activities in particular can be found in Heuken (1996), De Jonge (2000: 145–146) and Mandal (1994: 39–52). Post (1991) provides an in-depth analysis of the Japanese trade.

[13] See Chapter 4, Paragraph 'An Awkward Alliance: the Interdependence of Dutch and Chinese Business'.

[14] This concept has been formalized by T.P. van der Kooy in his *Hollands stapelmarkt en haar verval*. His argumentation highlights the crucial importance of 'the second hand' during the Dutch Republic (sixteenth and seventeenth century). These traders acted as a 'buffer' between irregular supplies and more regular sales. In his opinion, it was their knowledge of local market conditions – i.e. better access to information – which made them invaluable intermediaries. Van der Kooy also mentioned the speculative function

was also often a third, fourth or even fifth hand (Liem Twan Djie 1947: 4–11).[15]

The distribution chain typically went from European importer to Chinese middlemen. The latter could be highly specialized, but the *pasar* enterprise – which sold just about anything – was equally important. From the intermediate trader the goods were distributed further down the chain. The merchandise was sold in shops: *toko*, or in even smaller *warung* in the villages (*desa*). Goods were also traded by small peddlers who would sell the merchandise in every conceivable spot. The Chinese (*Cina klontong*) with his carrying pole (*pikulan*) was a common sight everywhere. Last but not least, there was the market (*pasar*) in which Chinese and indigenous traders were active.

In the case of exports intermediate trade meant collecting the merchandise. Petty traders would buy small quantities of local agricultural and industrial produce. These would be bundled and sold to retail traders. The retail traders could however also decide to buy directly from local producers. Wholesale traders would buy goods from retailers or directly from factories in the case of processed agricultural products like sugar.

Fourth, the import and export trade of the Netherlands Indies thrived on credit. It acted as a lubricant for the trading sector and the entire economy. Access to sufficient capital was a precondition for the smooth running of the economic system. Credit was hard to come by and securing it was easier for those with access to socio-economic networks. From the top of the pyramid capital trickled down to those involved in trade, production, or consumption.

Substantial risks were attached to the extension of credit. As late as 1924 E.G.J. Gimbrère[16] pleaded for a clearly defined use of terminology and standardization of contracts (Gimbrère 1924: v–viii, 3–7). According to him trade boiled down to the creditworthiness of the participants. This

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this type of trader fulfilled by pointing out the extremely small profit margins he had to accept (Van der Kooy 1931: 21–22, 45, 85–89).

[15] A good illustration of this system is the distribution of opium on the black market as described by Rush. This so-called *patungan* trade system had a pyramidal structure and was carried out below the level of the state sanctioned opium farm stores by numerous street hawkers (Rush 1990: 57–63).

[16] E.G.J. Gimbrère (1891–1949) practised law in Padang before he was employed by the Nederlandsch-Indische Handelsbank (NIHB) in 1917. He became Director in Batavia in 1926, but returned to the Netherlands in 1927 to take up a position as professor of law at the university of Tilburg. Throughout his (academic) career he published extensively on topics such as credit practices in trade and sugar finance (Korthals Altes 2004: 247, 282, 527; Gimbrère 1924 and 1928).

meant assessing the extent to which risks could be covered. Sufficient collateral was a key condition since borrowing took place on security. This was greatly aided by clear liabilities. Still, as will be shown, being able to hold someone liable does not guarantee a favourable outcome when debtors default on their payments.

### *Sources*

In Indonesia consultation of the archive of De Javasche Bank (DJB) at Bank Indonesia (BI), Jakarta provided unique material. Material was also found in Arsip Nasional in Jakarta and the private archive of coffee factory Margo-Redjo in Semarang. In the Netherlands the Nationaal Archief in Den Haag was of great importance, especially the archives of the Nederlandsche Handel-Maatschappij (NHM), the Koloniale Bank (KB), the Handelsvereeniging Amsterdam (HVA), and the Ministerie van Koloniën. Other archives worth mentioning are Internatio-Müller in Rotterdam, the Koninklijk Instituut voor Taal-, Land- en Volkenkunde in Leiden and the Nederlandsch Economisch-Historisch Archief in Amsterdam.

Newspapers, magazines and other serial publications were crucial in supplementing and/or cross-checking data. Issues of *Soerabaiasch Handelsblad*, *De Locomotief*, or *De Indische Mercuur* were particularly useful in giving a more complete picture of specific events. In addition differences in point of view of these and other publications like *Kabar Perniagaan*, *Pembrita Betawi*, or *De Telefoon* shed more light on divisions within colonial society.[17] Serial publications like the year reports of trading companies and societies contained invaluable statistical data.

The interviews conducted provided the kind of unique background and atmospheric impressions hardly ever found on paper, save for the few well-written works of fiction.[18] Extensive library research was conducted in general and specialized libraries.[19]

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[17] For more information on the press in the Netherlands Indies see Adam (1995), Bosma, Sens and Termorshuizen (2005), Hoogerwerf (1990), Maters (1998) and Termorshuizen (2001, 2011).

[18] The interviews conducted with F.L.N. van de Ven (*Pak* Ferry), *Pak* Joenoes, and members of the Tan/Dharmowiyono family were of great importance in this respect. See Beekman (1996 and 1998), Birney (1998) and Nieuwenhuys (1972) for an overview of fiction dealing with the Netherlands Indies.

[19] In the Netherlands: the Vrije Universiteit Amsterdam, the Universiteit van Amsterdam, the Koninklijke Bibliotheek in Den Haag, the Universiteit van Leiden, the Koninklijk Instituut voor Taal-, Land- en Volkenkunde in Leiden, the Koninklijk Instituut voor de Tropen in Amsterdam, the Erasmus Universiteit Rotterdam, and the Institute of

## *Research Method*

The following pages reflect a historian's exercise. Practical use has been made of economic science concepts to strengthen the argument and shed light on long-term historical developments. The study is archive-driven since it is primarily based upon archival sources: many of them new and/or neglected by other scholars (Ankersmit 1986: 233–247; Breisach 1983: 291–302, 337–341, 355–360; Aslanian 2011: xv–xviii).

Chronology and case studies constitute important elements in the narrative below. The word narrative stands for the organization of historical knowledge into an explanatory scheme which takes the form of a coherent story.[20] Cases form an integral part of this story as they relate to the type of phenomena of the research.[21]

The argument alternates between the macro and micro level, between broader political and economic issues and the decisions made by companies and individuals. The selected case studies focus on Java and the trading world of Batavia, Semarang and Surabaya since a significant part of the 'commercial action' in Java took place in these urban surroundings. This spatial setting is complemented by a sectoral focus on wholesale and intermediate trade emphasizing the commercial relations between Europeans and Chinese.

The research does not seek a macro-level explanation, but offers a detailed examination of the wholesale trading arena and selected

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Social Studies in Den Haag. In Indonesia: the Perpustakaan Nasional in Jakarta, the Centre for Strategic and International Studies in Jakarta, the Koleksi George Hicks at the Lembaga Ilmu Pengetahuan Indonesia in Jakarta, and the Perpustakaan Mangkunegara in Surakarta.

[20] The word explanation should be used with caution. A historical narrative is not an image or an explanation of the past, but an interpretation at best. A historian provides an interpretation of the past by showing cohesion into something which appeared incoherent or without structure. Historical knowledge has been characterized as the arrangement of knowledge since it neither produces theory nor tests theory against the facts (Ankersmit 1983: 250; Ankersmit 1986: 182–190). Narration is one of the more common forms historians use to that effect. See Ankersmit (1986) and Lorenz (1987) for an overview of explanatory paradigms used in historical science.

[21] The use of cases is a well-established method in social science research where controlled experiments are hardly feasible. The choice of a case study involves greater detail and accuracy of information at the cost of making less effective generalizations. The selection of a representative case is therefore crucial. The selection process involves hard to define concepts such as relevancy and significance. Hammersley (1993: Chapter 10–11) surveys case studies and alternative research strategies. Lustick (1996) deals with selection bias and argues for greater historiographical consideration to help focus investigation and explanation.

companies. This avoids making unexamined assumptions like the well-established perception of total Dutch dominance of wholesale business in Java. The resulting increase in complexity is balanced by a better understanding of historical developments offering a more solid basis for future research (Van Klinken 2005: 79–81).

CHAPTER TWO

# PRELUDE TO RAPID EXPANSION (1800–1884)

Private entrepreneurial activity was initially viewed with suspicion by the colonial government and therefore not encouraged. In the eyes of the administration private entrepreneurs were adventurers and fortune-hunters and their presence could not contribute to a profitable development of the colony. Directing the flow of money into the state coffers had absolute priority. As a result, it would take until the demise of the Cultivation System (1830–1870) before private trading business could really take off.

Though facing serious obstacles private entrepreneurship managed to persist. At first, British traders and planters played an important role. Their dominant economic position slowly declined after the advent of economic institutional progress. The establishment of the Nederlandsche Handel-Maatschappij (NHM) and De Javasche Bank (DJB) in the 1820s was crucial in this respect. Both institutions became a major lifeline of the economy. Chinese private commercial activity was just as indispensable by brokering between the different segments of colonial society.

## *The Colonial State and the Economy*

The colonial state in Java came into being after the dissolution of the Vereenigde Oost-Indische Compagnie (VOC) on 31 December 1799. Established in 1602 in order to participate in the lucrative trade in Asian spices, the VOC managed to assert itself in a bustling commercial environment (De Houtman 1603; Van Leur 1955; Vogel 1992: 168–179). Aided by growing political influence the company developed into "a precocious multinational corporation with features of an Asian state." (Dick et al. 2002: 44).[1] The company concentrated its vast resources on

[1] The literature regarding the history of the VOC is overwhelming, making it difficult to give an accurate overview. A good start are the standard publication of Gaastra (1991), Jonker and Sluyterman (2000), and Jacobs (2002). Jacobs (2000) extensively covers the Asian trade of the VOC in the eighteenth century.

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maritime trade throughout Asia with the primary goal of maximizing profits. A strong sense of purpose and the efficient methods employed to this end paid off as the VOC turned out to be very successful. Business encouraged the company's territorial ambitions, as it responded to the need of protecting its trading objectives and possessions. Still, financial considerations kept these territorial ambitions in check.

The VOC organization had a high level of centralization. The company was headed in Asia by the *Gouverneur-Generaal* (Governor-General or GG) whose orders emanated from Batavia, located on Java's northwest coast. The company's influence spread from there, although its territorial sway within the Indonesian archipelago remained limited to Java and the Moluccas (Abeyasekere 1987: 3–47; Dick et al. 2002: 44). The VOC empire went into decline in the second half of the eighteenth century.[2] Following the Fourth Anglo-Dutch War (1780–1784) which crippled the company's business and nearly bankrupted it, financial difficulties proved insurmountable. Despite reorganization attempts the VOC became insolvent and on 1 March 1796 the administration of its possessions was handed over to a government committee.[3] A few years later the VOC was formally dissolved (Somers 2005: 81–87).

With the demise of the VOC the Dutch role in Asia contracted to exploiting the economic resources of Java and the company's complex trading system was replaced by a dominant trading link with the Netherlands. However, changing the VOC-style administration into a modern, rational bureaucracy took much time and effort.[4] The new Dutch colonial state inherited an eighteenth century administrative and political structure characterized by corruption, factionalism, and

[2] A discussion of the downfall of the VOC and the possible causes can be found in Jacobs (2000: 15–17) and Mack (2001: 41–46). Dillo (1992) discusses the final period (1783–1795) of the VOC's existence at length.

[3] At this point the company's debt totalled *f* 134,701,868. With shareholders being offered a compensation of *f* 6,440,000 the total amount would ultimately reach *f* 141,141,993 (De Bree 1928–1930: II 53).

[4] To what extent the administration of the Dutch Republic and/or Kingdom can be characterized as 'modern' is questionable. Whereas the Republic's economy has been characterized as 'modern' the administration was only partly centralised after the Napoleonic reforms. It would take the better half of the nineteenth century before the Dutch state had overcome the so-called institutional impotence of the Republic (De Vries and Van der Woude 1995: 789–806; Van Zanden 1987: 116–123).

patrimonialism.[5] The transformation of the Dutch colonial state was undertaken by H.W. Daendels and Thomas Stamford Raffles.[6]

Herman Willem Daendels was Governor-General of the Netherlands-Indies from 1808 till 1811. A supporter of Napoleonic political reform, he was the right candidate for the French who occupied the Netherlands. Daendels swiftly reorganized the central and regional colonial administration. He created the *Generale Secretarie* (General Secretariat) which formed the centre of his administration and formulated main policy. The *Raad van Indië* (Council of the Indies) was stripped of its legislative power and became a consultative body. Java's territory was divided into districts, or *Residenties* (Residencies), which were headed by a *Resident* (Resident) (Cribb 2000: 123). The *Resident* was a European civil servant, responsible for many tasks from agriculture to the administration of justice. An important improvement was the introduction of fixed salaries and precise instructions to curb the old discretionary powers of colonial civil servants.

With the spilling over of the Napoleonic wars into the Indonesian archipelago, the British took over the Dutch possessions and appointed Thomas Stamford Raffles as Lieutenant-Governor-General (1811–1816). Raffles maintained and refined the principal features of Daendels modernized administration. He introduced a new tax system that would replace the VOC system of compulsory labour services, the levying of taxes in kind (mostly rice and teak), and forced deliveries of monopoly products such as coffee, sugar, cotton, and indigo. In 1813 the land rent system was introduced which taxed the possession of land, obliging farmers to give up two-fifths of the proceeds of their (rice) harvests either in kind, or preferably, in cash (Boomgaard 1989: 32–34; Brown 1997: 96–98).

Daendels and Raffles also curtailed the powers of the *Regenten* (Javanese district chiefs, known collectively as *priyayi*) as intermediaries

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[5] According to Boomgaard, the Governor-General and his advisory council formed "a quasi-oriental court with far-reaching, 'despotic' powers, and the pomp and splendour to match." Emphasizing the parallel between the 'court' of the Governor-General and the *kraton* (palace) of the Javanese princes, he claims that both could be regarded 'family governments'. The high court nobles and the princes were often related by marriage, while the same applied to the Governors-General and their high officials (Boomgaard 1989: 14). See also Blussé (2000b) for a description of diplomatic ritual at Batavia during the VOC era.

[6] See Boomgaard (1989: 29–34), Dick et al. (2002: 59–60, 63–64), Van Niel (2005: Chapters 6 and 7), Ricklefs (2001: 145–150), Somers (2005: 89–92), Stapel (1941: 76–77), Stevens (1982: 45–48, 50–55).

between the European civil service and the Javanese peasantry, while direct contact with village heads was enhanced (Ricklefs 2001: 150; Stevens 1982: 48, 52.) After the restoration of Dutch rule to Java in 1816, the *Binnenlandsch Bestuur* (Interior Administration or BB) was built up around the *Resident*, the *Assistent-Resident* (Assistant Resident) and the *Controleur*[7] (Inspector). Alongside the European hierarchy functioned an indigenous one (*Pangreh Praja*) with the *Regent* at the top, the *Wedana* (district head) in the middle, and the *Lurah* (village head) at the bottom. Colonial policies were implemented sideways by communication between European and indigenous officials of comparable rank (Dick et al. 2002: 60, 115; Sutherland 1973: 54–93, especially 54–63).[8]

Daendels' and Raffles' attempts at reform strengthened the state and contributed to rising costs of the Dutch administration in Java. These increased expenses could not be met by the colony itself for the government's finances in Batavia were in an alarmingly sorry state. The Dutch colonial possessions were causing a large annual deficit,[9] whereas the financial position of the Netherlands in the aftermath of Napoleon's defeat was equally bad, and deteriorating. Profit from Java became absolutely essential. (Creutzberg 1976: 16–17; Ricklefs 2001: 155; Van Baardewijk 1993: 11).

How to achieve this? In line with the reforms, an interventionist state came to replace the personal fiefs of VOC officials, who had depended far more heavily upon the cooperation of the ruling indigenous elite.

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[7] The *Controleur* was the representative of the colonial civil service *par excellence*. Standing at the lowest level of the European colonial administration he was entrusted with a range of tasks. His workload included police matters, taxes (assessment, collection and payment), cultivations (general condition, irrigation, tests, harvest, sale, market prices), agrarian concerns (exploitation, rights of ownership, lease of land), labour services (maintenance of roads, canals, etc.), live stock (diseases, feed, theft) and the state of public health. To attend to all these matters with equal diligence was an enormous task as the number of duties was excessive while many required specialist attention (Dick et al. 2002: 115; Van Doorn 1996: 106).

[8] See Van den Doel (1994) for a description of the *Binnenlandsch Bestuur* between 1808 and 1942 and De Graaff (1997) for its counterpart in the Netherlands, the *Ministerie van Koloniën* (Ministry of Colonies). Sutherland (1973, 1979) gives an account of the changes within the indigenous civil service (*Pangreh Praja*) showing how the Javanese *priyayi* responded to them.

[9] Between 1816 and 1829 government spending greatly exceeded the revenue derived from Java's export trade which was virtually the only source of public income. Accumulated deficits amounted to *f* 37,700,000 in 1829. As a result, the colonial government would keep expenditures within the colony to a minimum for decades to come. According to Fasseur, the administration showed an unbelievable frugality with expenses limited to the extreme (Booth 1998: 138–139; Creutzberg 1976: 17; Fasseur 1975: 37–40).

This powerful position would lead the Dutch to seek the solution to their pressing financial problems in a mobilization of the indigenous economy to their own advantage. But before they could do so, they had to mobilize all their resources following the outbreak of the Java War in 1825.

The increasing intervention by colonial officials in Java's economy and society unleashed a prolonged uprising in Central Java led by *Pangeran* (Prince) Dipanegara which cost at least 200,000 Javanese lives and saw the population of Yogyakarta reduced by half. To win this war the colonial government spent between *f* 20 and *f* 25 million, constituting the biggest drain on its expenditure and greatly adding to its already severe financial difficulties (Creutzberg 1976: 17; Diehl 1993: 197). After the conclusion of the war in 1830, the Javanese rulers were stripped of valuable territories although their kingdoms – known as the Principalities – remained semi-independent (Bongenaar 2005: 51–53, 685–688). From now on the Dutch could implement their policies in Java undisturbed and with little restraint for the sensitivities of the indigenous population (Cribb 2000: 114; Dick et al. 2002: 57; Ricklefs 2001: 150–154).[10]

The economy of Java at the beginning of the nineteenth century was no subsistence economy. During the VOC-period substantial production for the market had come into existence. Most of what Java produced was still meant for the island's internal market, but production for the interinsular market and the world market was quite significant. Cash crops such as coffee, sugar, cotton and pepper were cultivated, bought up by traders and transported to the coast (Jacobs 2002: 538–539; Kwee Hui Kian 2006:26, 190–195). As a result, Java's interior had a dense market network with permanent markets at the district level and village markets operating weekly.[11] Maritime trade was equally vibrant with the private sector accounting for 60% of turnover in the 1770s against 40% for the VOC (Kwee Hui Kian: 26–28).[12]

[10] The main reasons for the outbreak of the Java War are described in Houben (1994a: 10–14). He also provides an elaborate treatment of the war's aftermath and the serious consequences suffered by the Javanese elite. According to Houben it is doubtful whether the Javanese rulers after 1830 could still be considered serious bargaining partners of the Dutch (Houben 1994a: 17–71).

[11] See De Bree (1928–1930: I 145), Dick et al. (2002: 58–59), Houben (1994a: 312–315), Knaap (1996: 173–174), Korthals Altes (1991: 13).

[12] The private sector consisted of Chinese and indigenous skippers (predominantly Javanese) with the former accounting for about 30% of the number of skippers and 40–50% of the volume of shipping. The corresponding figures for the Javanese amounted to approximately 40% of the number of skippers, with 25% of the total shipping volume (Knaap 1996: 174, 177, 208–209).

The labour required to support this economic activity was supplied by Java's indigenous population, estimated at 5,6 million in 1820 and 19,5 million in 1880.[13] Since the level of urbanisation at the time was very modest, the majority of this population – consisting mainly of Javanese and Sundanese – lived in the countryside. The European and Chinese population lived mostly in urban surroundings and constituted only a tiny minority within the larger population. In 1820 the number of Europeans in Java approached 9,000 which would increase to almost 34,000 in 1880. The Chinese population in Java numbered approximately 64,000 in 1820 against 207,000 in 1880. When compared with the indigenous population the European and Chinese presence amounted to only 0.15% and 1%. However, immigration from China during the seventeenth and eighteenth century ensured that in the port towns of Java's north coast (*Pasisir*) Chinese traders became more numerous than indigenous ones (see Map 3 and 4). With the continuation of this migratory pattern Chinese accounted for no less than 26% of Batavia's and 17% of Semarang's urban population in 1890 (Boomgaard 1989: 166; Boomgaard and Gooszen 1991: 98–110, 122–127, 131–135, 219–221; Kong Yuanzhi 2005: 270).

Like all ethnic minorities within the Netherlands Indies, the Chinese were administered by their own leaders in areas where they lived in large concentrations. These community leaders were appointed by the Dutch and given the military titles of *Majoor* (Major), *Kapitan* (Captain), or *Luitenant* (Lieutenant). Officers – men of power and wealth – were officially vested with executive, administrative and even limited judicial powers within their communities. This system of representation provided a link between the immigrant Chinese communities and the colonial and indigenous authorities.

Mediation of this kind was a product of the indirect rule which the authorities found easiest to maintain. The officer system was placed under the colonial local administration as a counterpart to the system of indirect rule of the indigenous population. The indigenous administration was called the *Inlandsch Bestuur*, while the local administration over the Chinese came to be known as the *Chineesch Bestuur*, part of the administration of the so-called *Vreemde Oosterlingen* (Foreign Orientals). The latter included the Arabs, Moors (Indian Muslims) and the Bengalis, who were also administered by their own headmen. However, the Dutch gave

[13] Referring to the population of Java, whether indigenous or non-indigenous, the numbers include population figures for the small island of Madura off the north-eastern coast of Java.

considerably more attention to the *Chineesch Bestuur*, since the Chinese presence was of far greater economic significance (Lohanda 1996 and 2001; Wu Xiao An 2003: 20–21).[14]

Throughout the nineteenth century the Chinese played an important role in the economic sphere, acting as a broker between the Javanese peasant, the colonial sector and the world market.[15] Their orientation towards business as well as their access to intra- and extra-archipelago trade networks was vital in this respect (Blussé 1986: 3; Kwee Hui Kian 2006: 27). The Chinese had fulfilled this intermediary role ever since the founding of Batavia by Jan Pieterszoon Coen in 1619. They were in an excellent position to tap the flow of Chinese commodities imported into Java by way of Batavia, and supplied the VOC with Javanese products that had to be bought on the open market.

Their economic position was further enhanced by the fact that within the regions belonging to the VOC the taxation of trade was often left to Chinese entrepreneurs on account of their trading experience and widespread business networks. They were expected to perform better in exacting the obligatory tax percentages than their Javanese counterparts.[16] This highly profitable co-operation was intensified in the nineteenth century when other taxes levied by the colonial state, such as the opium and pawnshop tax, were collected by Chinese. It has been estimated that these so-called revenue farms contributed 15–25% of total revenue collection between 1816 and 1885 (Booth 1998: 308; Dick et al. 2002: 73–75; Knaap 1996: 176–177).

### *Changing Perspectives: Government and Private Initiative*

The development of colonial economic policy in the nineteenth century can be divided into three phases: a trial and error period in the years

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[14] See for the historical roots of the officer system in Southeast Asia Chapter 4, Note 1. Lohanda's publications (1996 and 2001) on the subject are the standard references for the origin and historical development of the institution of (Chinese) officers. The archives of the *Kong Koan* (Chinese Council) of Batavia are an important source in this respect. They constitute the only relatively complete archive of a Chinese urban community in Southeast Asia (Blussé and Chen Menghong 2003; Li Minghuan 2003: 216–218). See Cribb (2000: 132–133) for the distribution of officers' seats in the Netherlands Indies.

[15] This feature of Chinese economic activity will be treated in Chapter 4, Paragraph 'An Awkward Alliance: the Interdependence of Dutch and Chinese Business'.

[16] This was also recognized by the indigenous courts whose income relied for a substantial part upon the taxation of trade. In 1808, for instance, about 40% of all fiscal revenue of the Yogyakarta sultans came from toll-gates and markets. Like the Dutch, the indigenous rulers more often than not awarded the collection of these important taxes to Chinese businessmen (Boomgaard 1989: 26).

before 1830, government-led exploitation (with strong regional differences) through the *Cultuurstelsel* (Cultivation System) between 1830–1870 and a period of *laissez-faire* liberalism in the years after 1870 (Dick et al. 2002: 63).

After the British interregnum had come to an end, a period of economic experimentation commenced during which various proposals aimed at improving the colony's financial state were contemplated (Booth 1998: 137–138; Mack 2001: 50–60; Van Niel 2005: Chapter 8). The establishment of a settlement colony was given careful thought, but ultimately rejected (Van Baardewijk 1993: 12). The Dutch possessions in the archipelago would remain a trading colony and trade would constitute the main element in reforming the colony's finances. The difficulty, however, lay in transferring money.[17] Silver coinage was scarce and the more common copper coins unusable in the Netherlands. The only way to redress the negative balance of trade was to remit cash crops to the Netherlands of equal value to the burden of the colony's debt. This entailed the procurement of tropical produce at the right volume and price in order to make a profit (Van Baardewijk 1993: 12; Ricklefs 2001: 155).

The proposals of J. van den Bosch – Governor-General from 1830 till 1833 – formed the basis of the Cultivation System.[18] Its basic notions stemmed from the land rent system which however did not generate sufficient returns in the eyes of Dutch policy makers.[19] Van den Bosch reduced the share of land that had to be ceded for taxation purposes from two-fifths to one-fifth. However, instead of rice the peasant would have to cultivate, harvest and deliver cash crops chosen by the colonial government against a set price. With the payment (*plantloon*) they received, they

[17] A striking example of this enduring situation can be found in the memorial volume of Reynst & Vinju – one of the oldest Dutch trading companies in the Netherlands Indies. In 1838 an associate of the company, A.A. Vinju, was not able to transfer money to his wife in the Netherlands. His solution was to buy sugar on personal account which he sent to Rotterdam. His wife would receive the required cash upon the sale of the sugar. In doing so, Vinju essentially followed the same procedure as the government (Godée Molsbergen 1935: 13).

[18] This topic in Dutch colonial historiography has generated much discussion. This overview is presented to depict the position of private (trading) enterprise. The following publications give more detailed information: Van Baardewijk (1993: 11–23), Boomgaard (1989: 34–36), Booth (1998: 19, 24, 30, 137–141), Brown (1997: 96–113), Dick et al. (2002: 63–66), Elson (1994, 1996), Fasseur (1975, 1992), Hugenholtz (1994), Mack (2001: 61–73), Van Niel (1992, 2005: Chapter 9).

[19] Although export production did increase before 1830, the returns to the Dutch exchequer were relatively low, partly because public expenditure within the colony was disproportionately high due to the Java War.

could settle their land rent obligations.[20] Producing these export crops for sale at fixed prices eliminated the problem of cash remittances and increased government revenue by profitably marketing these crops. In order to stimulate production European and Javanese officials were paid *cultuurprocenten*, constituting a percentage of the cash crop value delivered to the government in their districts.

Seen from the Dutch point of view, the Cultivation System achieved immense profitability.[21] Essentially, it was a system of compulsory delivery with Javanese and Sundanese labour as its main input. It required peasants to be tied to their villages and regulations were introduced prohibiting the indigenous population from travelling without official permission (Cribb 2000: 137). What made the Cultivation System a success was the availability of a large labour force fuelled by population growth. The system itself was by no means revolutionary. The agricultural and administrative techniques used were traditional, optimized by the intake of an underutilized natural resource: labour. With the removal of the labour constraint through the brutal but effective use of force this economic deadlock was, at least partially, overcome.

With Van den Bosch, profitability came to constitute the main principle of government. Of all the export crops coffee was consistently the most profitable, closely followed by sugar and indigo, with tea and tobacco at a considerable distance. However, the Cultivation System ran into trouble as early as the 1840s when rice shortages appeared, caused partly by competition of export crops (especially sugar cane) for arable land and the supply of water. The sustainability of the system began to be doubted and arguments in favour of free labour and private entrepreneurship were increasingly voiced (Van der Meulen 2002: 341–350: Wertheim 1956: 235–238). Profitability however remained high, especially after 1850 when

[20] According to Boomgaard, the basic assumption of the system was that Javanese society generated insufficient incentives for the production of cash crops for the European market. Therefore the Javanese had to be 'persuaded' to dedicate part of their land (one-fifth) and part of their labour (one-fifth) to the cultivation of coffee, sugar, and indigo. However, contrary to Van den Bosch's original plan, the land rent continued to be levied on top of the compulsory cultivation of cash crops and traditional corvée labour services (*heerendiensten*). Hugenholtz (1994) claims that Van den Bosch disliked the land rent system, but was obliged to maintain it as it proved essential for the smooth running of the system of forced cultivation.

[21] Between 1832 and 1852 colonial benefits constituted 19% of Dutch state revenue. Between 1860 and 1866, one-third of Dutch state revenue derived directly from the Cultivation System (Dick et al. 2002: 65).

the world market price for coffee and sugar rose sharply.[22] The Cultivation System was therefore dismantled only very gradually.

The Cultivation System was primarily implemented in Java where it was unevenly distributed. The burden of the system was carried by the inhabitants of East Java, the northern littoral and the *Preanger* region in West Java. Private plantations in West Java and the Principalities (South Central Java) constituted another parallel system of production for the world market.[23] These estates, with quasi-feudal rights over the resident population, enjoyed virtual autonomy from the colonial administration. Their owners – mainly Eurasians[24] and Chinese – collected land rent in the form of (export) crops and/or labour services. Therefore, two Java's can be distinguished after 1830: one under the land rent system, and one under the Cultivation System. Until approximately 1855, the latter was the larger of the two. After that, peasants increasingly fell under the land rent system again which amounted to a return of the period before 1830.

The year 1870 marked the switch from a conservative policy of state-run cultivation to a liberal phase with more opportunities for private enterprise (Wertheim 1966: 3–4). The Agrarian Law of that year allowed European entrepreneurs to rent *sawah* (wet rice) land from the indigenous population on an annual basis, while waste land (*woeste gronden*) or 'uncultivated' land could be leased from the colonial government for a maximum period of 75 years (Idema 1924: 6–10). With the promulgation of this law the Cultivation System officially became a thing of the past, although the process would take decades to complete.[25] The final

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[22] According to calculations by Van Zanden and Van Riel (2000: 223) the Cultivation System's total net profits during the period 1831–1870 amounted to *f* 923.3 million, i.e. 1831–1840: *f* 150.6 million; 1841–1850: *f* 215.6 million; 1851–1860: *f* 289.4 million; 1861–170: *f* 276.7 million.

[23] The plantations in West Java were mainly situated in Batavia's surroundings with the exception of the colossal *Pamanoekan & Tjiasem* estate, located between Batavia and Cirebon. A map depicting the situation in 1900 can be found in Cribb (2000: 126). See Houben (1994a: 294) for a map of the distribution of plantations in the Principalities around 1837.

[24] Eurasians were of mixed European/Asian descent. In the nineteenth century approximately 80% of the European population of the Netherlands Indies was born in the colony, most of whom had one or more indigenous ancestors. In the 1930s this percentage still stood at 70%. The sociologist W. Wertheim has estimated that in 1942, with the colony's total population at 90 million, 8 million to 9 million inhabitants had one or more European ancestors, even though only 220,000 were officially endowed with European status (Bosma and Raben 2003: 33; Gouda 1995: 165; Groeneboer 1998: 302).

[25] It was not until 1919 before the last remnants of the system (the forced cultivation of coffee) were finally eradicated. Sugar was dealt with separately in the Sugar Law of 1870 which saw the forced cultivation of sugar cane gradually phased out between 1878 and 1891.

outcome was inevitable since the colonial state grew stronger towards the end of the nineteenth century. It could now introduce a new system of exploitation which heavily depended upon its ability to guarantee security of land, labour and property to private investors and entrepreneurs. These would henceforth be entrusted the task of growing profits from Java's soil.[26]

*Infrastructural Developments*

The dismantling of the Cultivation System together with the law changes of 1870 were of vital importance to the development of private enterprise. This process was encouraged by a number of revolutionary changes in transport and communication during the second half of the nineteenth century (Jonker and Sluyterman 2000: 194–196; Kallioinen 2004).[27] Connections within the archipelago and between the Netherlands Indies and Europe intensified as a result of more reliable and faster communication services. In 1844 the transport of passengers and mail was improved by the opening of the so-called 'overland mail', enabling passengers to disembark in Alexandria and travel over land to Suez where another ship would be waiting. The journey from the Netherlands to the Indonesian archipelago was thus reduced from eighty to fifty days. The opening of the Suez Canal combined with the rapid development of steam shipping further reduced travel time to 40–45 days which also benefited the cargo trade (Hogesteeger and Tutert 1995: 27–49; Van der Meulen 2002: 355–361).

In 1870 the Stoomvaartmaatschappij 'Nederland' (SMN) started to operate a regular steam shipping service between Amsterdam and Batavia, followed in 1875 by the Rotterdamsche Lloyd (RL) (De Goey 1991; De Goey and Van de Laar 1995: 40, 49). Towards the end of the century it took these companies little over a month to reach their destination. The advent of steam shipping saw a remarkable increase in speed, as well as volume and regularity. The steady improvement in connections inspired

[26] See Boomgaard (1989: 42), Dick et al. (2002: 65–67), Elson (1996: 123–135), Leidelmeijer (1997: 27), Mack (2001: 74–90).

[27] The impact of steam navigation and telegraphy on the conduct of Singapore's entrepot trade as described by Wong Lin Ken (1960: 169–175) shows how revolutionary these changes were. He points out that the faster and more reliable transportation of bigger cargoes, in combination with quick transmission of commercial intelligence and orders changed the trading business fundamentally. Goods could now be bought and sold while they were in transit across the oceans and with the same capital firms could now engage in a larger volume of business. See also Tagliacozzo (2005: 77–82, 86–87).

newspapers, in the Netherlands and Java, to start printing mail editions as early as the 1850s in order to keep the general public as well as the business community informed about events in the colony and mother country (Hogesteeger and Tutert 1995: 51–80; Huijts and Tils 1994: 57–73; Termorshuizen 2001: 83–84).

Within the colony the first private steamship lines connecting the islands of the Indonesian archipelago were introduced in 1850. This important service was provided by the British owned Nederlandsch-Indische Stoomvaart Maatschappij (NISM) from 1865 till 1890, after which the company's operations were taken over by the Koninklijke Paketvaart Maatschappij (KPM) – a joint initiative of the SMN and the RL and strongly favoured by the colonial administration for being a Dutch enterprise (à Campo 1992: 40–74).[28] With the support of the government the KPM managed to build up an intricate network of shipping lines covering the whole archipelago. In the process of doing so the company became inextricably linked to the ongoing Dutch territorial expansion and economic penetration of the Outer Islands (à Campo 1992: 215–220, 624–627; Cribb 2000: 141).

Business life in the colony also received an impulse from the introduction of the telegraph. The year 1870 saw the establishment of the telegraph line Batavia-Singapore which hooked up with the already existing connection between Singapore and London. Though expensive, the telegraph was immediately recognized as an invaluable means of information gathering. By sending telegrams important business information concerning import and export data, price movements, market prospects and preferences, political developments, harvest estimates, debtors, bankruptcies, etc. could swiftly be exchanged and reacted upon.[29] The ability to transmit orders and receive information in a short space of time also enabled firms in Europe to act more as principals and restrain the freedom of their agents and branch offices operating in Asia (Wong Lin Ken 1960: 173).[30]

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[28] See also www.theshipslist.com.

[29] See Simons and Tophoven (1994) for a description of the detailed flow of information between a Dutch textile manufacturer and its trading representative in the Netherlands Indies during the period 1875–1881. On the same topic and company see Fischer, Van Gerwen and Winkelman (1991: 98–112, especially 101). The account of Fischer and Nordvik on the Norwegian shipbroking firm Fearnley and Eger is equally instructive. It describes how and at what cost information was gathered and, even more tellingly, how bar conversations and gut feelings often took precedence over the hard evidence that had been hunted so keenly (Fischer and Nordvik 1994: 1–29).

[30] This was a common problem within colonial business conditions of the time. Effective supervision was difficult because of the distance which contributed to the independent attitude of agents and branch offices.

In 1870 there were as many as 35 telegraph offices spread all over Java. The rest of the colony was less well served with only 5 offices operative in South Sumatra at the time.

The same applied to the postal services with 71 post offices in 1870 throughout Java against a total of 17 offices in the Outer Islands.[31] Railway development during the late nineteenth century was confined to the island of Java and Sumatra. The first railway track was constructed in Central Java in 1873 and by 1894 it was possible to travel by rail between Batavia and Surabaya. With regard to roads Java could boast approximately 24,000 km of roads in 1903 against almost 13,000 km of roads in the rest of the archipelago (Cribb 2000: 140).[32] These figures show that Java's infrastructure was developing fast during the last quarter of the nineteenth century and it is therefore hardly surprising that the island proved to be the breeding ground of private entrepreneurial initiative after 1870.[33] This is illustrated by the fact that Java accounted for almost 80% of all exports leaving the colony in 1894. Only in the second half of the 1890s exports from the Outer Islands began to grow faster than exports from Java (Dick et al. 2002: 102; Lindblad 1989c).

### *The Resilience of Private Enterprise*

Private enterprise did not operate under favourable conditions before 1870. This does not mean that the government monopolized the colonial economy. Cultivation System and private enterprise did not exclude each other as shown by the astonishing development of Java's cane sugar industry. Here state initiative and private entrepreneurship complemented each other, making it the second largest in the world after Cuba (Bosma 2005: 3–7, 27; Knight 1993: 7–12; Leidelmeijer 1997: 23–24, 260–261, 276–278). Private enterprise did not disappear, although its progress can be dated no earlier than 1850 (Anderson 1983: 489). Government and private exports already equalled each other in value in 1860, but it would take another 20 to 30 years for the private sector to start pulling the weight of the economy. By 1885, the value of private exports was ten times higher

[31] PU/BOW Library 2603.

[32] A concise history of railway development in the colony is given by Veenendaal (2004). Ten Horn-van Nispen (2004) has covered the neglected topic of road development.

[33] During the period 1875–1905 total colonial expenditure on infrastructural improvements amounted to *f* 181 million on railways, *f* 36 million on harbours and *f* 59 million on irrigation works (Diehl 1993: 198).

than that of the government (Furnivall 1939: 168–169). Still, it was the Cultivation System that put Java on the map as a major export economy. The period 1830–1870 saw increases in both the volume and value of exports from Java. This export growth continued till the 1870s and was accompanied from 1850 onwards by a rapid monetisation of the economy.[34]

*Trading Enterprise Resurfacing*

Commercial activity in the colony revived after the administrations of Daendels and Raffles had ended. Apparently there was still an extensive field of operation for the various trading companies. Under the British, and right after the return of the Dutch, several trading companies and a number of plantation companies were established. The former mainly in Batavia, but also in Semarang and Surabaya. The latter primarily in the Javanese principalities. In 1816 Batavia counted ten European (English and Dutch) and three Armenian trading companies,[35] while Semarang and Surabaya had three European trading companies each (Booth 1998: 253; Van Enk 1999; Van den Berg 1907: 274, 276).

This initial period involved much pioneering – characterized to a high degree by trial and error – since a more institutionalized environment was lacking. Many Dutch trading-companies were established, but most collapsed after only a few years in business (Mansvelt 1938: 3, 12).[36] Especially, since their competitors – above all of British origin – were in a much better position to bargain. After all, the Dutch had been virtually cut off from the colony for about 20 years from 1795 till 1815 (Gaastra & Emmer 1977: 280; Oosterwijk 1996: 35–36, 47). In the meantime, British trading firms

[34] See Van den Berg (1907: 113), Booth (1998: 24, 85), Dick et al. (2002: 69–70), Korthals Altes (1991: 13–16).

[35] Unfortunately, the history of the small Armenian (business) community in the Netherlands Indies remains to be written. The National Archive in The Hague houses the collection Joseph which contains the raw material for such an endeavour (NA/Collection Joseph, especially No. 4 and 10).

[36] Most Dutch ventures persisted in following the methods dating from the times of the VOC. Thereby, a ship would be equipped with the goods the Dutch had to offer for export; usually victuals, garments and luxury items for the European population of the colony. Once the harbour of destination was reached, the cargo had to be sold and the search for return freight commenced. If competitors had been there recently, demand and supply frequently did not match and chances were great that the partners in these ventures had to take a loss, or were forced to abandon the trading business altogether (Mansvelt 1924: I 43–44).

had acquired great knowledge about the indigenous markets, and established many trading connections.[37]

In the case of Java, British exports were aimed at the indigenous population. This huge market had infinitely more possibilities than the much smaller European one. Backed by a massive industrial output – ensuring a steady supply of cotton cloth to cater for a growing indigenous demand – profits accrued,[38] allowing the British to bid higher prices for return freights. Upon the restoration of Dutch power in Java, British commercial houses commanded the trading business. In addition to English and Scottish trading firms, there were American and to lesser extent Armenian and Arab companies active. In the 1850s, these were supplemented by a number of German traders. Foreign traders would retain their prominent position in the Netherlands Indies at least until 1860, although their relative importance did diminish gradually.[39]

Tables 2.1–2.4 document the dominant position of foreign trading companies at least until 1840. Between 1817 and 1828 foreign traders on average accounted for approximately 60% of the total number of trading firms active in Batavia.[40] This percentage rose to 66% of all trading companies operating in Batavia during the period 1829–1840. The situation in Surabaya and Semarang between 1829 and 1840 was more balanced with foreign businesses accounting for 53% and 48% of all trading enterprises. Batavia was the colony's undisputed centre of trade. On average there were 41 trading companies active in Batavia during the period 1829–1840 against 17 in Surabaya and 14 in Semarang. The Dutch element within the trading business remained significantly smaller (40%) than the foreign one (60%) for the period studied (Mansvelt 1938: 6).

Naturally, the Dutch were not very comfortable with this situation. A number of restrictions were therefore proposed to hinder foreign trade

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[37] For instance, in 1823 the English trading firm Thornton in Batavia invariably succeeded in persuading the Chinese to buy its imported textiles by offering lower prices and longer credits. The head of the company, the widow Mrs. Thornton, was said to have an extraordinary command of dealing with the Chinese. According to the author of these lines, this required intimate knowledge of the Chinese character traits (Godée Molsbergen 1936: 7).

[38] According to Mansvelt, the British managed to make profits of about 100% to 150% on their exported textiles (Mansvelt 1924: I 54).

[39] See Bosma (2005), De Bree (1928–1930: I 79, 145, 168), Mansvelt (1938: 5–6, 10–12), Stevens (1982: 203, 207–215), TNI (1842: I 218–219).

[40] Of the 222 Europeans registered as merchant in Java between 1819–1823 only 17% had been born in the Netherlands, whereas 25% originated from England, Ireland and/or Scotland (Bosma 2005: 11).

Table 2.1. Trading companies in Batavia (1817–1828).

| | Total | Foreign | Dutch | %[1] |
|---|---|---|---|---|
| 1817 | 14 | 9 | 5 | 36 |
| 1818 | 14 | 8 | 6 | 43 |
| 1819 | – | – | – | – |
| 1820 | 13 | 5 | 8 | 62 |
| 1821 | 16 | 12 | 4 | 25 |
| 1822 | 21 | 13 | 8 | 38 |
| 1823 | 24 | 17 | 7 | 29 |
| 1824 | 26 | 17 | 9 | 35 |
| 1825 | 44 | 27 | 17 | 39 |
| 1826 | 40 | 24 | 16 | 40 |
| 1827 | 28 | 13 | 15 | 54 |
| 1828 | 27 | 15 | 12 | 44 |

[1] The percentage of Dutch trading companies compared to the total number of trading companies.

Table 2.2. Trading companies in Batavia (1829–1840).

| | Total | Foreign | Dutch | %[1] |
|---|---|---|---|---|
| 1829 | 36 | 26 | 10 | 28 |
| 1830 | 36 | 26 | 10 | 28 |
| 1831 | 33 | 24 | 9 | 27 |
| 1832 | 38 | 24 | 14 | 37 |
| 1833 | 41 | 27 | 14 | 34 |
| 1834 | 43 | 28 | 15 | 35 |
| 1835 | 44 | 29 | 15 | 34 |
| 1836 | 44 | 29 | 15 | 34 |
| 1837 | 52 | 35 | 17 | 33 |
| 1838 | 45 | 29 | 16 | 36 |
| 1839 | 41 | 25 | 16 | 39 |
| 1840 | 39 | 22 | 17 | 44 |

[1] The percentage of Dutch trading companies compared to the total number of trading companies.

Table 2.3. Trading companies in Semarang (1829–1840).

| | Total | Foreign | Dutch | %[1] |
|---|---|---|---|---|
| 1829 | 13 | 9 | 4 | 31 |
| 1830 | 13 | 9 | 4 | 31 |
| 1831 | 14 | 9 | 5 | 36 |
| 1832 | 14 | 9 | 5 | 36 |
| 1833 | 15 | 5 | 10 | 67 |
| 1834 | 15 | 5 | 10 | 67 |
| 1835 | 15 | 4 | 11 | 73 |
| 1836 | 15 | 4 | 11 | 73 |
| 1837 | 13 | 6 | 7 | 54 |
| 1838 | 13 | 6 | 7 | 54 |
| 1839 | 17 | 9 | 8 | 47 |
| 1840 | 14 | 6 | 8 | 57 |

[1] The percentage of Dutch trading companies compared to the total number of trading companies.

Table 2.4. Trading companies in Surabaya (1829–1840).

| | Total | Foreign | Dutch | %[1] |
|---|---|---|---|---|
| 1829 | 14 | 5 | 9 | 64 |
| 1830 | 14 | 5 | 9 | 64 |
| 1831 | 18 | 9 | 9 | 50 |
| 1832 | 18 | 9 | 9 | 50 |
| 1833 | 18 | 9 | 9 | 50 |
| 1834 | 18 | 9 | 9 | 50 |
| 1835 | 23 | 13 | 10 | 43 |
| 1836 | 21 | 13 | 8 | 38 |
| 1837 | 15 | 8 | 7 | 47 |
| 1838 | 15 | 8 | 7 | 47 |
| 1839 | 17 | 11 | 6 | 35 |
| 1840 | 14 | 10 | 4 | 29 |

[1] The percentage of Dutch trading companies compared to the total number of trading companies.
Source: Mansvelt (1938: 5).

and encourage Dutch trading enterprise. The principal aim was to favour imports from the Dutch textile industry (including the important Belgian one until the Belgian revolt in 1830) at the expense of the English (Korthals Altes 1991: 28; Van den Berg 1907: 277–279).

From 1818 trade to and from Java was placed under tight control. Batavia became the exclusive port of entry for imports, while exports could only be shipped from Batavia, Semarang and Surabaya. A system of differential duties was levied whereby Dutch imports and/or ships had to pay significantly less than their foreign counterparts. In 1823 the immigration law was sharpened while travel and residence regulations became severely restricted. In addition, land could from now on only be rented or bought by the indigenous population, Dutch citizens and Chinese born in the colony (Bosma 2005: 5–6, 27; Dick et al. 2002: 70; Stevens 1982: 191–195).

Other measures were taken as well. In August 1818 samples of textiles favoured by the Javanese and Sundanese were sent to traders and manufacturers in the Netherlands. The following month a goods exchange (De Bataviasche Beurs) was established in Batavia, and merchants met for the first time in their own building. Slowly, an economic framework started to emerge (Van den Berg 1895: 1599–1604; De Bree 1928–1930: I 129–131; Koch 1916: 15–16).

### *The Moulding of an Economic Framework: NHM and DJB*

It would take the establishment of the Nederlandsche Handel-Maatschappij (NHM) in 1824 and De Javasche Bank (DJB) in 1828 to create an economic institutional framework in the Netherlands Indies. The founding of the NHM was preceded by years of discussion.[41] After the bankruptcy of the VOC the idea of concentrating trade in the hands of one enterprise was never completely abandoned. The strong support of King Willem I – who acted as guarantor and participated for several million guilders – led to the birth of the NHM in March 1824. Amid great public attention *f* 37,000,000 was raised which placed the company on a solid financial footing (Mansvelt 1924: I 64–73; Wijtvliet 1989: 97). Soon, the NHM became a large, Amsterdam-based commodity trading conglomerate.

[41] Mansvelt (1924) and De Graaf (2012) are the standard works on the NHM in the nineteenth century. The preamble to the inventory of the NHM archive provides a welcome introduction (in Dutch) to the company (Wimmer and Tempelaars, 1998).

From 1830 NHM operations included the shipment and sale of the Indies government's share of the output of the Cultivation System. This agreement saw the Government acting as a mega-producer and the NHM as its agent and provider of working capital. In return, the NHM was commissioned to transport and sell the yields in the Netherlands (Wijtvliet 1989: 97; Knight 1993: 10). The first decades of the NHM's existence were dominated by this symbiotic arrangement between the government and the company. This relationship was not seriously questioned until the 1870s and it took another decade to set out a new course. In April 1884, the statutes of the NHM were altered and activities shifted from trading to banking (Wijtvliet 1989: 116).

This marked a deviation from the NHM's original goals. Its initial purpose was threefold: it would not only take over the government's trade with the Netherlands Indies, but also act as a general Dutch export/import organization, and – interestingly – serve as an information centre, both domestic and foreign. Two arguments supported the last task. First, inadequate knowledge was generally perceived as one of the most serious shortcomings of the Dutch trading community. Second, Willem I also aimed at a reduction of expenditure and hoped to achieve this by letting the NHM take over the costly task of gathering economic and political information, normally undertaken by the government itself through its consulates (Mansvelt 1924: I 84–85).

The incompatibility of these tasks soon became apparent. When collecting information the NHM would naturally find the different Chambers of Commerce (Kamers van Koophandel) on its path.[42] However, information from these institutions could be doubted since they were headed by entrepreneurs who might well be among the NHM's competitors in its capacity as a commercial trader. In addition, how plausible was it for the NHM to extend credit to other trading companies? Private traders would love to profit from the financial resources and expertise of their competitor. However, for the NHM to survive as a trading company competition with these same traders was inevitable (Mansvelt 1924: I 104–107). It is not surprising that the NHM failed to fulfil all of its original tasks. But, it soon

[42] Mansvelt's comment is misplaced since Chambers of Commerce did not exist in the Netherlands Indies at the time of the NHM's establishment, although *De Bataviasche Beurs* (1818–1827) can be considered a forerunner. The colonial government established Chambers of Commerce in Batavia, Semarang, Surabaya, Makassar and Padang in 1863. They represented all those participating in industry and trade, but also acted as an official source of information for the authorities (Koch 1916).

became one of the largest Dutch colonial enterprises in trade and finance under the direction of the Factorij, its head office in Batavia.

The founding of DJB in 1828 had been long overdue. The need for better credit facilities and monetary reform had been voiced frequently (Boomgaard 1996: 492–493). The shortage of cash was a continuous hindrance to all including the NHM (Mansvelt 1924: I 191; Van den Berg 1907: 126). The money circulation consisted largely of copper coins which led to the following outburst by a Batavian businessman in 1827: "[…] just now some cartloads of copper money are stopping in front of my door, the verification of which will keep me busy the remaining six hours of this day. This money is coming from a Chinese debtor, of whom I have demanded payment for a long time to no avail, and who is offering me copper money at this time […] in the hope, that I will reject him, and that he will profit from this rejection later on" (De Bree 1928–1930: I 165).

The trading companies did not have sufficient working-capital at their disposal, and as a result traders tended to vouch for colleagues. In the 1820s, an inextricable mutual dependency had thus evolved which threatened to bring the trading business to a halt (Mansvelt 1924: I 191; De Bree 1928–1930: I 169). Candidus ten Brink, an associate in the Batavian trading company Ten Brink & Reynst,[43] would write in 1823: "It is impossible to form an opinion concerning solidity [financial soundness] in a colony, if one has not been there; everyone vouches for one another […] In this way someone without a penny in the world, buys houses, estates, etc." (Godée Molsbergen 1936: 6).

Although the urgency of the situation was generally acknowledged, years of fruitless discussion and different proposals went by before anything happened (De Prins 2002: 126–136). In 1825, once again upon the instigation of King Willem I, the first preparations for the establishment of a circulation bank were finally made. This bank would have to put the

[43] Ten Brink & Reynst had been founded upon the instigation of the well-known Rotterdam ship-owner and trader A. van Hoboken. After several disappointments with business relations in the Netherlands Indies, Van Hoboken had realized that a more institutionalized form was needed to serve his purposes, in order "[…] to make sure from now on in whose hands my business comes to rest […]" (Godée Molsbergen 1936: 6). To establish a permanent representation he founded a new trading company in Batavia and sent one of his employees, C. ten Brink, to Java. Together with S.C. Reynst, he would head the trading company Ten Brink & Reynst as of 1821. After the death of Reynst, two new associates, M. Reynst and G. Gijsing, were brought into the company in 1823 which had its name changed into Ten Brink, Reynst & Gijsing. With the repatriation of Ten Brink and Gijsing in 1836 and the inclusion of A.A. Vinju as an associate in the firm, the company was transferred into Reynst & Vinju. Under this name the company became one of the most renowned Dutch trading companies in the Netherlands Indies.

monetary system of the Netherlands Indies on a more solid footing, and ensure its smooth functioning by acting as a banker of last resort and by issuing banknotes. Following consultation with the NHM in 1826,[44] and its subsequent promise in 1827 to participate financially in the new bank these plans came to fruition.

But, unlike the enthusiastic reception of the NHM in the Netherlands a few years before, the plans for DJB were not well received. It was doubted whether DJB would be able to reform the monetary chaos and impose a uniform monetary system within the colony. Raising the necessary money proved difficult. An amount of *f* 2,000,000 was thought to be needed, but never reached. In the end, high-ranking civil servants and prominent entrepreneurs were more or less coerced (*printah halus*) into participation by circulars urgently requesting their cooperation (De Bree 1928–1930: I 174–175, 200–201, 205–208; Mansvelt 1924: I 191–192; Van Laanen 1983: 277).[45]

In January 1828 DJB was founded with an initial capital of little over *f* 1,000,000. The government participated for *f* 500,000, the NHM contributed *f* 150,000 and the rest was raised for the greater part by the trading sector. The president of the NHM Factorij, A.J.L. Ram, was appointed as one of its Directors (De Bree 1928–1930: I 213–214).[46] Although a circulation bank DJB was allowed to operate as a commercial bank in order to help the trading sector obtain badly needed credit which until then had been obtained through inscrutable mutual arrangements. However, the extension of loans to agricultural enterprise was categorically ruled out. The NHM had made its – indispensable – participation conditional upon this provision. It claimed that a circulation bank could only perform well when its capital was not tied up for prolonged periods (De Bree 1928–1930: I 189, 193, 221). Of course, this argumentation also served to prevent a new competitor from entering the colony's lucrative export market.

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[44] G. Schimmelpenninck – Director of the NHM in the period 1824–1827 – devised the original statutes of DJB together with J.C. Baud (Mansvelt 1924: I 191–192).

[45] In the distributed circulars of November 1827 notice was given that – upon request of King Willem I himself – a specified list would be drawn, disclosing the names of the persons who had contributed to the realization of the new bank, as well as the exact amount to which they had subscribed (Van den Berg 1907: 127).

[46] The NHM's involvement with DJB did not stop at that point. Even before the establishment of DJB, the NHM had acted unofficially as its representative in the Netherlands. After the refusal of De Nederlandsche Bank to take over this position, the NHM would officially look after DJB's interests in the Netherlands for the period 1829–1891 (De Bree 1928–1930: I 238–239).

## *Entrepreneurship under the Cultivation System: Djauw Adjiem and Ho Kong Sing*

The introduction of the Cultivation System after 1830 boosted the import and export sector of the Netherlands Indies economy. The imports of cotton piece goods from the Netherlands, and to lesser extent from Great Britain, rose markedly. The same applied for the exports of principal commodities grown under the Cultivation System. The government accounted for the lion's share of the commodity export trade which was almost solely directed towards the Netherlands. The NHM, the exclusive contractor of the colonial administration, enjoyed de facto exemption from paying export duties on government exports, and consequently flourished. The coffee auctions of the NHM became equated with enormous wealth and prosperity (Beekman 1998: 212–260; Van der Meulen 202: 413–438; Korthals Altes 1991: 13).[47]

Excluded from this profitable arrangement private trading enterprise was put at a disadvantage. However, private traders were not rendered completely powerless, even though they could not take part in the profitable government business. The production of agricultural export commodities was not solely undertaken by the government. The yields of the large private estates were significant and their respective owners were under no obligation to market the cultivated produce through the NHM.

The 1840s saw a clear expansion of the private trading sector, particularly with regard to sugar exports. In the next decade, the government's share in the export trade fell from around 72% in 1850 to less than 58% in 1859 (Korthals Altes 1991: 14). The NHM became obliged to rethink its strategy,[48] and subsequently tried to break into the private trading system. In its annual report of 1853, NHM management unfolded its plans for the near future. Since the main priority was export an important role was assigned to the Factorij in Batavia.[49] This office would have to focus more on the steadily developing private sector. Consequently, the company had

[47] See also the complete title of Multatuli's famous novel published in 1860: *Max Havelaar, of de koffij-veilingen der Nederlandsche Handel-Maatschappij*.

[48] Between 1850 and 1860, the company's share in the import trade of the Netherlands Indies also dwindled, and its relative position was rapidly undermined by the private sector. In the years 1851–1855, the NHM still imported 60% of textiles against 40% of the private sector. The following period 1856–1860 saw a reversal of this situation with these percentages at 31% and 69% respectively (Mansvelt 1924: I 273).

[49] According to Mansvelt, the NHM viewed the export trade from the Netherlands Indies as its core activity, although it did not wish to abandon the import trade completely (Mansvelt 1924: I 273).

to pay more attention to its banking activities since profitable contracts could only be obtained by extending loans under more favourable conditions than competitors would be willing to offer.[50]

*The Lands of Djauw Adjiem*

The NHM would not commit funds without due thought as shown from the handling of a loan request from the Chinese entrepreneur Djauw Adjiem in 1855.[51] Djauw Adjiem had turned to DJB with a similar request before. On 3 February 1854 this application had been discussed in a meeting of the President and Directors. Djauw Adjiem proposed a *f* 400,000 loan against 6% interest. His land Kedong Gedee – located to the east of Meester Cornelis between Bekasi and Krawang – would act as additional security. This request was considered, but – lacking sufficient funds – DJB could only offer *f* 250,000 against 7% interest. A week later DJB decided not to grant the loan. The decision was justified by stating that it was difficult to ascertain the true value of lands belonging to *Inlanders*. This might have been a mere face-saver, since we also learn that Djauw Adjiem had withdrawn the request himself after hearing DJB's proposal.[52]

In 1855 Djauw Adjiem turned to the Factorij. The NHM faced the same problem of valuing the offered security.[53] However, it was not bothered by a shortage of funds and quite keen on seeing excess capital profitably invested (De Bree 1928–1930: I 430). Therefore it was decided to inspect Kedong Gedee to ascertain its business potential. Th.F. Schill,[54] senior employee of the Factorij, undertook the assignment and visited the different lands constituting Kedong Gedee from 11 till 14 November 1855. His extensive report of more than 30 pages shows the thoroughness of the attempt and the impossibility of assessing the value of an agricultural enterprise.

Djauw Adjiem had been active as an agricultural entrepreneur from at least 1838. He started out by renting the land Telok Poetjong in the vicinity of Batavia for an annual sum of *f* 35,000. According to Schill, his entrepreneurial skills led him to invest in improvements and crops. His success

[50] See Wijtvliet (1989: 98), De Jong (1995: 216, 224–225), Van den Berg (1907: 114–115), De Bree (1928–1930: I 430).

[51] The following section is based upon a NHM report: NA/NHM 5279 No. 47.

[52] BI/DJB 28 No. 32–35.

[53] At this point, Djauw Adjiem put forward as collateral the expected value of agricultural produce instead of the factories and the lands.

[54] A description of his career is offered in the following obituaries: G.H. van Soest, 'Th.F. Schill' in *TNI* (1888: I 312–317) and 'Th.F. Schill' in *IG* (1889: I 433–434).

may be inferred from the steady increase in annual payments. In 1845, the annual rent stood at *f* 52,000, whereas in 1851 – the final year he rented the land – it had already risen to *f* 90,000. Djauw Adjiem must have done well for himself in the intermittent years for in 1852 he became owner of Kedong Gedee, made up of five different lands. How much money was involved in the purchase is not clear. For taxing purposes these lands had been judged to be worth *f* 400,000. In the mean time Djauw Adjiem had worked zealously to develop his property. Schill was of the opinion that Kedong Gedee should now be valued at *f* 800,000, if not more. According to him such an amount had been offered by another Chinese land owner, but Djauw Adjiem had not been willing to sell for less than *f* 1,000,000.

Kedong Gedee was first and foremost sugar land and parts of it had been so for over 40 years. In this sense, Djauw Adjiem continued a tradition of Chinese entrepreneurial activity in sugar manufacturing in the vicinity of Batavia (Leidelmeijer 1997: 69–94). Schill devoted a substantial part of his report to agricultural considerations. A severe drought had recently plagued all farmland, but the lands of Djauw Adjiem compared favourably with any other. The area managed to retain water well, while being capable of quick drainage during the wet monsoon. Still, the western part of Kedong Gedee – near the river Cikarang – was less suited for the growing of sugar cane. The less fertile soil required irrigation in order to achieve higher yields. Djauw Adjiem therefore planned to build a dam in the Cikarang river which might serve as an auxiliary power supply for his sugar mills. While waiting for official permission he had already spent money on building the necessary sluice. More money had been invested in ensuring the regular transport of the produce of his lands and improving the navigability of the river.

The planned dam would add to the profitability of his enterprise, but an investment of this size required financial backing. For this reason, Djauw Adjiem turned to DJB first and then to the NHM. Unlike his proposal to DJB, a consignment contract – with the sugar factories and the lands serving as additional security – formed the basis of negotiations with the Factorij. Schill took a close look at the revenues of Djauw Adjiem's enterprise. The economic activities he discerned, show the complexity of an agricultural undertaking of the size of Kedong Gedee.[55] Central to

[55] Kedong Gedee was located between two rivers: the Tjicarang (Cikarang) to the West and the Tjitaroem (Citarum) to the East. To the South and Southeast, a road (Heerenweg) plus a forest, called Loewong, constituted the border. To the North, the remainder of the

Djauw Adjiem's entrepreneurship was the exploitation of two sugar factories. When the ownership of the lands was transferred to Djauw Adjiem in 1852 both factories were already in existence, but running under rather old-fashioned and primitive conditions. The sugar mills – known as Kedong Gedee and Tjicarang– were driven by cattle, producing respectively 4,000 and 2,000 *picols* of sugar annually.[56]

Djauw Adjiem had improved the existing factories and the warehouses. Within four years he had erected new stone buildings covered with tiles and subsequently enlarged them. The sugar mills were now powered by steam engines of 12 horsepower each installed in 1852. The one in operation at Tjicarang had been used by Djauw Adjiem on his rental land Telok Poetjong, but had been recently serviced. The other machine was brand-new, imported from England with the help of the manufacturer's agent and the Batavian trading company Pitcairn Syme & Co. Djauw Adjiem had employed the agent – Buchanan – to guide and supervise the changes in the production process. Schill's investigation showed that Buchanan was still on the payroll for *f* 200 a month, and that he offered his services to other landowners in the neighbourhood. The improvements and simultaneous development of new land for cultivation had resulted in a 100% production increase. In 1854 total sugar production had amounted to 11,255 *picols*. Because of the drought, Schill calculated an output of about 12,000 *picols* for 1855, but reckoned with a potential production level of 14,000 to 15,000 *picols* under more normal circumstances.

Manufacturing sugar required the cultivation of sugar cane. Next to the input of land – of which Djauw Adjiem had assured himself at the date of purchase – input of labour was needed for that purpose. The resident population totalled approximately 700 people, not counting the women and children who also worked the fields. Next to this free labour, Djauw Adjiem employed a workforce of about a 1,000 men recruited from the Bantam, Krawang, and Priangan area. During the operating period of the factories 200 of these labourers would work in the factories. Hired labour

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Pabaijoran lands (of which Kedong Gedee used to be part) formed the demarcation. In all, Schill estimated the size of Kedong Gedee to be approximately 8,165 acres. Schill tried to adequately assess the size of Djauw Adjiem's possessions, but discovered that the lands had not been mapped. Djauw Adjiem had made several fruitless attempts to have them measured, but could so far only produce a map of one of his lands, called Tjicarang. This proved to be worthless for Schill's purposes since it did not mention the scale used to draw it. The land registry only referred to the borders of Djauw Adjiem's lands in a general sense. Therefore, Schill was obliged to resort to superficial observations and estimate the size (NA/NHM 5279 No. 47: 8–9).

[56] 1 *picol* or *pikul* = 61,76 kilo (Van Schendel 2000: 110).

would be paid in cash supplemented with rice. Since a steady population growth was of the utmost importance for the flourishing of Djauw Adjiem's business, he tried to stimulate the migration of people to his lands. First of all, by putting the obligated rice delivery of the population on 1/6 of the harvest, instead of the customary 1/5[57] and by providing the necessary seeds and/or seedlings, to be paid for in rice after the harvest. He also operated a pawn shop through which money was advanced to the indigenous population. In another attempt to draw people, a new *pasar* (market place) had been built at the bank of the river Tjicarang.

According to Schill, Djauw Adjiem's reward for providing these facilities – i.e. advances either in cash, seed(lings), and/or cattle needed to work the field – was an interest charge of 200%.[58] Besides that rice production had increased and was now more than sufficient to provision his workforce. The remainder was processed by six new rice mills. The finished product was transported to Batavia and sold in commission or in shops. Another source of income was the sale of the by-product of sugar manufacturing: molasses. This was used to produce *arak* (an alcohol distillate) and profitably sold to the distilleries in Batavia. Additional income came from the rent of several *warung* (small shops) and the *pasar*, while the sale of forest products also saw a modest profit.

Schill claimed that total revenue of Djauw Adjiems lands for 1855 amounted to *f* 181,000. General expenses were estimated at *f* 84,000, whereas commission fees and mortgage rent charges came to *f* 37,000. This left a profit of *f* 60,000 which had been invested by Djauw Adjiem in further development of land, advances made to the population, the purchase of rice, and preparations to dam the Cikarang river. The threatening

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[57] The delivery of this so-called *tjoeke* was one of the semi-feudal rights exercised on private lands which had been regulated in 1809 and again in 1836. These arrangements stipulated, among others, that the landlords' tithe should not exceed 1/5 of the rice produced (Lohanda 1996: 207–208, 217).

[58] Contemporary opposing views of such practices can be found in *Tijdschrift voor Nederlandsch Indië*: 'Een bezoek op eene Javaansche markt', TNI (1850: I 440–442), 'Nadeelen door de Chinezen in de dessa's op Java veroorzaakt', TNI (1850: II 216–218), 'De Chinezen als geldschieters der Javaan beschouwd', TNI (1859: II 58–61) and 'De Chinezen in de Ommelanden van Batavia', TNI (1855: II 416–417). An English translation of the first three publications can be found in Fernando and Bulbeck (1992: 19–25). Lohanda offers a more balanced view of Chinese landlords' usury practices. She claims that the indigenous population preferred to settle on private lands belonging to Chinese landlords since they were more lenient in dealing with their tenants and tended to accommodate their domestic needs. The Dutch themselves admitted that Chinese landowners were more flexible in dealing with the local population than Europeans, who strictly adhered to the stipulated legal arrangements and always kept their distance from their tenants (Lohanda 1996: 200–208, 216–223).

shortage of funds had compelled Djauw Adjiem to turn to the NHM, or abandon his ambitious plans. He offered to consign the agricultural produce of his lands to the NHM in 1856. Schill envisaged a profit of *f* 30,500. He did make several reservations, but concluded positively by stating that the NHM would benefit greatly from the contract with interest amounting to *f* 10,000.

Although the report does not tell us whether the NHM actually closed the deal with Djauw Adjiem, it shows the considerations both parties had to make. The trader – in this case the NHM – had to weigh the pro's and cons carefully. One of the tools at his disposal was a thorough investigation of the undertaking. In doing so, he would be able to find out what kind of working methods were used. At the same time, the client could be met, enabling an better assessment if and how much trust should be placed in him.

This is exactly what Schill did. Conforming to the general opinion of Europeans in the colony, his attitude towards Chinese businessmen was ambivalent. In his report, Schill expresses a genuine sense of admiration for Djauw Adjiem's entrepreneurship. He characterizes him as an experienced landowner, a man of diligence, equipped with a spirit of enterprise and in possession of exceptional drive. Djauw Adjiem is praised for his tenacity and sobriety when compared with the lavish life styles of other Chinese. However, Schill also expresses substantial critique. He comments for instance on the lack of tidiness, neatness and – above all – orderliness around the living quarters of Djauw Adjiem and his Chinese employees.

Other shortcomings and weaknesses of Djauw Adjiem's business manifest themselves most clearly in the administration of the enterprise. No statistics concerning the cultivated areas and the sugar production are available. Djauw Adjiem cannot say how much sugar cane is planted since the cane fields are of unequal size. Likewise, no records are kept of the amount of cane milled every year. Schill regrets the fact that Buchanan is not present at the time of his visit to the factory, depriving him of the chance to learn more about the efficiency of production. Like his Chinese supervisors Djauw Adjiem can only give him either partial or unclear answers to his questions regarding the quality of the syrup, the speed of the process, etc. Again, no records whatsoever are kept.

Nevertheless, Djauw Adjiem was not an absentee landowner. He took charge of business himself and supervised the work of his lands on a routine and daily basis. He would leave for Batavia once a month, to see a head administrator in charge of the arrival and delivery of the products. He would stay for two days to conduct his business and then return home.

Djauw Adjiem resided in his house at the sugar factory Tjicarang. This western part of his lands had been in cultivation for a short time. The development of new ground was still in process and in constant need of his attention. Djauw Adjiem had therefore split the supervising structure of his enterprise. Both parts centred around one of the sugar factories and were of identical make-up. These two structures consisted solely of Chinese whose upkeep was taken care of by Djauw Adjiem. A head supervisor was in charge assisted by Chinese subordinates, who were supervisors in their own right. Below the supervising level there were *mandur* (caretaker or overseers), both Chinese and Javanese. The latter were needed to maintain contact with the population and worked closely together with the indigenous heads of the different villages. However, the *mandur* supervising the work on the fields would be Chinese again.

Besides these supervisors, there were bookkeepers and clerks present at each factory. Schill did not think very highly of them. The specifications he was given by them lacked clarity, and did not contain the information to compile much needed statistics. The administrators just focused on the totals and neglected the details. Schill summarized his critique in the following lines:

> [...] both in cultivating and manufacturing the sugar, there is a lack of a systematic working method, the observance of which combined with a European management, would soon see these lands a source of treasures.

We will never know how far Schill's judgement was removed from the realities of Djauw Adjiem's business life. He spent only three days collecting the necessary information for his analysis. Lack of time usually turned any decision or recommendation into a blend of rational decision making and gut feeling. Caution and prudence would therefore have to be key words in the mindset of the trader.

In general, the growth of inland villages followed the foundation of plantations and was actively promoted as Djauw Adjiem did. This led to a rising demand for imported goods. From the middle of the nineteenth century an increase in the number of markets within the vicinity of plantation and village accompanied these developments. The landowner – as personified by Djauw Adjiem – took an active part in this process, in order to tie more people to his land for labour recruitment purposes, while at the same time recognizing the new business opportunities accruing from providing facilities to them (Lohanda 1996: 206; Suhartono 1994: 180).

This process gained momentum by the rapid monetization of the economy encouraged by the plantations' wage system (Booth 1998: 19, 85;

Suhartono 1994: 180–184). The establishment of an export industry in rural areas led to an increasing commercialization of country life. The insufficient money supply, however, was a severe hindrance (Booth 1998: 24). Schill wrote that the future development of Djauw Adjiem's business ventures depended on his ability to acquire sufficient cash, enabling him to give advances to the people living on and from his land.[59] Schill's calculation of Djauw Adjiem's cash needs for 1856 clearly shows the urgency of a steady money supply. *f* 120,000 (approximately 75% of the total amount of *f* 161,500) was booked under the heading advances.[60] With the years going by, it was increasingly difficult to balance rising demand with the money in circulation (Suhartono 1994: 180).

The solution for the indigenous population was to pay for goods in instalments. The pedlars and hawkers roaming the country side were prepared to sell goods on credit (*mindering* in the vernacular of those days), since they realized that a constant flow of money to the villages was guaranteed by the payment of cash wages on a regular basis. Of course, they would charge heavily for this service. Printed cotton and cloth were consistently in highest demand with the Principalities among the biggest consumers. The distribution of merchandise was overwhelmingly in the hands of Chinese middle men traders. The textiles in Central Java were marketed via Chinese traders and/or shop-owners in Semarang and would pass from retailer to retailer in the smaller towns, until they arrived in the smallest of villages to be sold in shops (so-called *warung*) and by *Cina* klontong (Suhartono 1994: 179–181).[61] The Dutch and indigenous side of the economy were linked by this long chain of Chinese tradesmen. The resulting relationship between the Chinese and Dutch – fostered by both sides – had been a common feature since the days of the VOC (Knaap 1996: 141, 176–177; Nagtegaal 1996: 232). So common, that it gave birth to the expression *ana Landa ana Cina*, to be translated as: Where there are Dutchmen, there are Chinese (Suhartono 1994: 179).

For decades the NHM had been at the beginning of the textile import chain, thanks to a highly artificial construction. The company was aided by heavy import duties on foreign textiles[62] and the establishment of a

[59] NA/NHM 5279 No. 47: 25.

[60] NA/NHM 5279 No. 47: 32.

[61] *Cina klontong* was the common name used for pedlars of Chinese descent. Together with their Javanese counterparts their activities constituted the end of the distribution chain.

[62] 25% in the case of British textile imports imposed as early as 1824/25, and 50% for Belgian imports after the country became independent in 1830 (Mansvelt 1924: I 201, 289).

textile manufacturing industry in the Twente region in the Netherlands after the Belgian secession from the Dutch kingdom in 1830. The government supported the fledgling industry by creating an artificial outlet for its products in the Netherlands Indies. At a stroke of the pen, the decision was made to double the export of textiles to the colony, and the NHM was granted the first contract in 1835 (Mansvelt 1924: I 201–203, 284–290; Wijtvliet 1989: 97).

In December 1854 the last contractual arrangements of this kind between the government and the NHM came to an end. From 1855 onwards, the NHM traded textiles in competition with private enterprise (Mansvelt 1924: II 271, 173).[63] This was hardly considered a shock as the NHM had revised its strategy a few years before. As a result the company had come to focus more on the export trade. However, it did not abandon the import trade altogether. The protected export of textiles from the Netherlands by the NHM had been very lucrative for decades. It took the NHM some time to come to terms with this new situation. Serious difficulties were encountered along the way, as shown by the following example of the Semarang agency which ran into trouble in 1856.

### *The Default of Ho Kong Sing*

In August 1856 Th.F. Schill travelled to Semarang to help solve the problems of the local NHM-agency after the default of the Chinese textile trader Ho Kong Sing.[64] When confronted with the situation, his verdict of the agent's behaviour was harsh:

> To my mind, the agent has acted in this matter against all the rules of caution & good order, contrary to the principle upheld by the Factorij [...] not to extend any more credit to debtors before their arrears are settled.[65]

Before sailing to Semarang Schill had studied the monthly debtors' survey of the Semarang agency and the correspondence regarding Ho Kong Sing's payments schedule. In Semarang he analyzed the agency's books and questioned the NHM-agent thoroughly. After his return he wrote a detailed account of thirty pages which related the downfall of Ho

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[63] Initially, private enterprise had the upper hand. The textile manufacturers in Twente turned away from the NHM since private traders managed to market their products more profitably because of their expertise and better knowledge of local circumstances ([Internatio] 1938: 15; Brugmans 1963: 72).

[64] The following section is based upon a NHM-report: NA/NHM 5279 No. 50.

[65] NA/NHM 5279 No. 50: 12.

Kong Sing, and was equally informative on the import trade in general. His description supports the commonly held view that Dutch and Chinese traders were condemned to each other. From a business perspective, they were not able to live with or without one another.

The first sign of problems with the Ho Kong Sing account dated from July 1855. It remains unknown when Ho Kong Sing had become a client of the NHM, or how long he had been active in the trading business.[66] Considering his reputation within the Semarang trading scene, it must have been a substantial period. This seems all the more likely, since it was his son Ho Tiang Tjay – acting under his name and on his behalf – who conducted the family business. Ho Kong Sing, old and blind, had originally ventured into the rice and *gambir* trade, and had invested part of his profits in real estate. But, the fortunes of the family had dwindled considerably in the recent past. According to Schill the property had already been put up as security and the outstanding assets hardly possessed any real value.

Ho Kong Sing's trade in *gambir* and rice was directed towards the interior. In the last quarter of the eighteenth century the economy of Central Java had come to specialize in agricultural production. Its produce was destined for the internal market of the island, or perhaps the interinsular trade (Knaap 1996: 174). Although the advent of the Cultivation System had transformed both the production and trading system, a substantial portion of Java's agricultural production was still intended for internal consumption. With a population of approximately 9,5 million around 1850 (Boomgaard 1989: 166) demand for all sorts of products was high. This market seems to have been served almost exclusively by Chinese merchants travelling into the interior. According to Knaap the Chinese presence in trade and shipping was felt particularly strongly in West and Central Java (Knaap 1996: 130, 176). Ho Kong Sing's business operations thus fitted a well-established economic pattern.

Schill's informative account allows a closer look at the ins and outs of Chinese business. Ho Tian Tjay, granted power of attorney by his father Ho Kong Sing, had associated himself with his brother Ho Tiang Yam and his uncle Ho Kong King. In the customary fashion of Chinese business

[66] It can be assumed that he must have been in business some time before 1845. Around that time, he donated *f* 2,000 for the building of the first Chinese Council office in Semarang: Kong Tik Soe. The large amount, and the fact that he is listed among the main donators out of a total of 123 is indicative of a respected position within Chinese business life and society (Liem 1933: 107).

entrepreneurs they had formed a *kongsi*[67] which served the purpose of pooling resources and spreading the risks of trading enterprise. Other business schemes were left untouched by this agreement. Schill's report does not provide specifics, but makes it clear that all three were indeed involved in other business ventures.

The Ho *kongsi* could only thrive by having enough capital at its disposal. The *kongsi*'s clientele in the Javanese heartland – smaller retail traders, hawkers, and/or the Javanese population – would all buy on credit, as we have seen from the case of Djauw Adjiem. As a result income and expenses did not match and required time to balance out. Capital was needed to cover the intermittent period. This problem was solved by shifting the burden to the supplier. Intermediate traders would ask for credit when purchasing goods. Since the wholesaler wanted to get rid of his stock, he usually had no other option but to consent.

The Ho *kongsi* applied two strategies to maintain a sufficient level of liquidity. It made use of the opportunities offered by the colonial government with regard to the import of *gambir*. The law allowed for payment of customs duties at a later stage which gave the *kongsi* more financial scope. The three members had each been awarded a credit of *f* 30,000 by the Semarang customs office. (On average the Ho *kongsi* had been indebted for amounts of *f* 50,000 to *f* 60,000.) Unfortunately, this arrangement was gradually phased out and abandoned in September 1855. This left the *kongsi* with only one way of meeting its cash requirements, i.e. by using the cash advances of the NHM.

The main reason for the associates to purchase cotton cloth from the NHM had been the flexible delivery conditions which required payment after only 2 to 4 months. Lacking connections and expertise, the NHM had no intention of entering the intermediate trade. As a wholesale organization it could not be bothered with small sales on the local market, and it preferred to entrust Chinese middlemen with the sale of the product. The NHM could afford to offer generous payment conditions because of its special position in this particular trade. The contracts concluded with the government not only exempted the company from tax levies,[68]

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[67] The term *kongsi* is used to indicate a business partnership, i.e. a co-operative organization in which arrangements have been made for the pooling of resources for business purposes only (Somers Heidhues 1992: 37–39; Wu Xiao An 1999: 24; Yuan Bingling 1998: 3–7). According to Vleming *kongsie* in a more literal sense means the management (*sie*) of the common property or common cause (*kong*) (Vleming 1926: 56).

[68] This decision was not given much publicity. There was no secret clause regarding this provision, but it was deliberately drawn up in rather obscure and vague terms to avoid attention (Mansvelt 1924: I 296–297).

but also stated that possible losses would be redeemed by the Ministry of Colonies on annual basis to a maximum of 12% of the invoiced value (Mansvelt 1924: I 288–289).

NHM's generous credit extension and the opportunities this offered, had been recognized early on.[69] The NHM, neither willing nor capable of competing in the local trade, put out its merchandise to Chinese middlemen in the expectation that they had access to the consumer market. The Ho *kongsi*, among many others, reacted by purchasing large quantities of textiles on credit. The entire supply would then be sold immediately, often below its market value. The cash earned could be used for other purposes before having to pay back the first instalment (Blussé 1986: 71). Thus, the trade in textiles did not constitute the core business, but enabled more profitable speculations in *gambir* and rice.

The amount of cash needed to keep the *kongsi*'s business going depended first of all on the conditions upon which it had extended credit to its own customers. These conditions had been too generous and on too large a scale in the case of the Ho-*kongsi*. Caution and prudence should have ensured that close attention was paid to these credit conditions. However, the *kongsi* had fallen into what Schill considered the pitfall of Chinese business mentality. It had operated too speculatively and not exclusively on the basis of perceived profit. Keeping a high profile to uphold a distinguished status and reputation within (Chinese) society had clouded the judgement of the *kongsi* members, and made them act without thinking.

There was no consequence as long as the ready procurement of capital was guaranteed. But with the ending of government credit facilities at the customs office, the availability of capital was curtailed. This hurt the traders' ability to pay the instalments upon their expiry dates. Ho Tian Tjay as well as his uncle Ho Kong King immediately ran into trouble. With the gradual reduction of their import credit in the months before September 1855, they experienced difficulty in meeting their obligations at the NHM-agency. The problems were aggravated by the scale of their commitments. From July to September 1855 each was indebted to the agency for over *f* 100,000. The agent was reluctant to act immediately, since both men were his biggest customers. Convinced of their solidity he waited until October before deciding to suspend credit until the arrears had been settled satisfactorily. This was achieved by both in the first months of 1856.

[69] Van Soest describes how Dutch traders in Semarang exploited these opportunities to the detriment of the NHM. It was supposedly Schill that put an end to these practices (Van Soest 1888: 314–315).

However, Ho Kong King went bankrupt in April 1856, offering his creditors a settlement of 70%. Ho Tian Tjay managed to stay in business by associating himself with his brother-in-law Tan Tjong Thoen.[70]

In doing so, he assured himself of the help of the powerful Tan family. The Tan and Be clans were the most prominent in business in Central Java, while wielding considerable power and influence in parts of East Java as well.[71] The stronghold of the Tan network was Semarang, where they had assumed social and political prominence in 1761 and retained the most important positions for over a hundred years. In Surabaya they had to content themselves with playing second fiddle to the Han family that dominated the local Chinese communities in East Java till the end of the nineteenth century (Rush 1990: 93; Salmon 1991: 78–80; Willmott 1960: 150).[72]

Tan Tjong Thoen was the black sheep of the family. Schill did not mince words, when he contrasted him with his very successful younger brother Tan Tjong Hoay (to be appointed Mayor of the Chinese in Semarang in 1860).

> Tan Tjong Huay is a solid Chinese, who appears to be doing the work alone, whilst Tan Tjang Taen does little or nothing, is addicted to opium and consequently more or less stays under the discipline of his family.[73]

The NHM-agent in Semarang nevertheless continued forwarding textiles to Ho Tian Tjay as long as Tan Tjong Thoen acted as guarantor which he did for a total amount of *f* 210,000. The agent was encouraged by the Factorij, who wrote at the end of 1855 that it would leave matters gladly to

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[70] His name was found spelled in a variety of ways, e.g. Tan Tjang Toen, Tan Tjong Toen, Tan Tjang Taen, etc., but most commonly as Tan Tjong Thoen (NA/NHM 5279 No. 50).

[71] Traces of individuals with the family name Tan can be found in Java as early as 1737, where they were active as professional seafarers and/or itinerant traders (Ng Chin-Keong 1991: 373–377; Hoetink 1917: 371–372; Hoetink 1922: 90). The 'Tan network' in the production and trade of salt in Central and East Java from the 1760s till the 1790s offers an interesting example of 'Tan presence' in this area. Acting as captain of Semarang (Tan Janko, Tan Leko and Tan Jokko), Surabaya (Tan Tinlo) and Gresik (Tan Singko) these men successfully managed to monopolize profits accruing from this commodity (Knaap 1996: 76–77, 124, 142; Knaap & Nagtegaal 1991: 142–143, 154; Liem 1933: 48–53; Kwee Hui Kian 2006: 164–165; Ong Tae Hae 1849: 23–24). Somewhat later in time, the Be family attained an extremely powerful position as well which owed a great deal to their connection and eventual partnership with the Tans (Rush 1990: 93).

[72] The first member of the Han family to be appointed captain of Surabaya in the eighteenth century was Han Bwee Kong (1727–1778). The help of his future father-in-law – who happened to be a Tan – might have contributed to his achievement. The rise to power of both families in their respective bulwarks Semarang and Surabaya came about at more or less the same time (Kwee Hui Kian 2006: 165–166; Salmon 1991: 62).

[73] NA/NHM 5279 No. 50: 3.

his discretion because of his better knowledge of local circumstances. Besides, it was feared that the agency's most important customers – i.e. Ho Kong Sing and Ho Kong King – would leave when restricted in their purchasing. This would have been problematic since NHM-sales of textiles in Semarang had come to a near standstill.

The NHM-agent thereupon decided to allow Ho Tian Tjay credit after he had settled his arrears in January 1856. By April 1856 Ho Tian Tjay was again in debt for *f* 94,000. From February onwards rumours started to circulate in Batavia about the unhealthy Semarang trading business. In the eyes of both DJB and the Factorij too much credit was being extended to Chinese retailers. Warnings were issued to be careful and not to deviate from the existing rules and regulations.[74]

As said Ho Tian Tjay's *kongsi* partner Ho Kong King defaulted in April 1856. This had its repercussions for Ho Tian Tjay's reputation of reliability. Rumours circulated that he was in desperate need for money to sustain his business. He usually obtained ready cash by buying textiles on credit and selling them cheaper when paid for in cash. Apparently this method no longer sufficed. Merchants became more and more wary about their commitments with Ho Tian Tjay and slowly started to restrict his credit. Except for the NHM-agent who trusted the connection with the Tan family. This connection seemed even more solid after 19 May 1856 when Tan Tjong Thoen formed a *kongsi* with Ho Tian Tjay.

In May and July the agent allowed delivery of textiles worth over *f* 50,000 on credit, although the *kongsi* had already failed to pay two accounts upon their expiry dates. More worrying was the omission of Tan Tjong Thoens signature on the contracts from 1 July onwards. In all likelihood Tan Tjong Hoay had discovered his brother's irresponsible commitments and had forced him to refrain from any further commitments. On 29 July he took possession of the undivided inheritance of their father and dissolved the business association between himself and his brother. Tan Tjong Thoen sought refuge in all kinds of delaying tactics; even pretending to suffer from an illness after 29 July. In the first week of August a creditor of the Ho *kongsi* – the Semarang-based trading company Veeckens & Co. – threatened to take legal action unless the required signatures were given. No positive response followed. Deprived of his brother-in-law's financial backing Ho Tiang Tjay defaulted.

74 BI/DJB 28 No. 113: 315.

The result of all this was the immediate introduction of a system of payment by cash only. Schill strongly approved of this measure and saw its justification in the likelihood of other defaults. In his view Chinese were often so deeply involved in each others businesses that other parties could turn out to be implicated in the Ho Kong Sing case. He acknowledged that a temporary decline in sales might occur, but was convinced that the more reputable traders would keep coming since textiles would remain in demand.

Schill's arguments proved to be right. Without credit sales the Chinese textile trader Tjoa Gian had to suspend payment. Although his business had been relatively small the accumulated debt was considerable: *f* 14,000 in the case of DJB and *f* 28,000 in the case of the NHM.[75] He had also based his speculative trade in rice and other products as well as his commercial activities in the interior upon the cash flow realized with textiles bought from European traders. The credit facilities had allowed him to stay in business for years.[76] Again, the prolonged trust of the NHM-agent in his creditworthiness had sufficed for a continued extension of credit.

In the end Schill was not very hopeful that satisfactory settlements could be reached. He reckoned that Ho Tian Tjay might repay 60% of his debt at the most, whereas Tjoa Gian could probably do no better than 35%. After reassessment the latter's outstanding assets – though looking quite promising on paper – proved to be worth only 20% of total debt. The only positive aspect were two mortgages the NHM-agent had demanded as additional security in 1849. On paper, these were worth approximately *f* 7,000. Schill was in favour of allowing Tjoa Gian's friends time to pay for them since he feared collusion by the Chinese at a public sale whereby the houses would be sold at giveaway prices. If the amount of *f* 7,000 could be retrieved, 50% of Tjoa Gian's debt to the NHM would be repaid. The remainder, however, could not be counted upon and would have to be written off.

Djauw Adjiem's and Ho Kong Sing's business cases show that private enterprise during the Cultivation System was very much alive. Entrepreneurial activities crossed ethnic divides since they were governed by principles of profit and driven by competitive strength. However, private enterprise in Java in the middle of the nineteenth century faced numerous

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[75] Not counting the other creditors, whose likely existence could not be ascertained (BI/DJB 28 No. 141: 336).

[76] Tjoa Gian had been a client of the NHM in Semarang well before 1849 (NA/NHM 5279 No. 50: 20–21).

obstacles. The experience of the NHM in Semarang provides just one example of this. The myriad credit flows and tangled personal ties prevented transparent business conditions. The trader's position in general was a vulnerable one. Lack of capital, information and security forced him to take risks and venture into deals which common sense would normally rule out. Within a couple of years he could be rich (again) or poor (again). It is telling that according to Nieuwenhuys a merchant in the Netherlands Indies had only made it after three bankruptcies (Nieuwenhuys 1963: 98).

The Chinese – realizing their vulnerability as a minority group – understood these basics perfectly well. But, Chinese entrepreneurship in itself did not ensure success. Of prime importance was the interplay between the Dutch, Chinese and indigenous forces at work as witnessed by Djauw Adjiem's efforts to stimulate the migration of the indigenous population to his lands by building a new market place. Or his attempts to persuade the administration to grant him a license for building a dam. The successful combination of these three factors alone could guarantee success. This delicate balance was difficult to achieve and equally difficult to maintain. The participants were all forced to walk a tightrope amidst conflicting interests and shifting allegiances.

### *Finance in Transition: Internatio and De Javasche Bank*

Private trading enterprise continued to expand in the 1860s. In this decade most export commodities saw an increase in the share of private export trade (Korthals Altes 1991: 14–15). The insufficiency of the existing credit facilities remained a serious problem. The demand for credit increased steadily during the 1850s and early 1860s, as the Cultivation System with its forced deliveries was dismantled and the government ceased to act as a provider of credit. (Van Laanen 1990: 254; Brugmans 1963: 69–75). The NHM started to develop its banking activities and rapidly expanded its engagements with the agricultural sector from 1855 onwards. Six years later, the Factorij had already committed itself to 26 private enterprises. In 1857, the Nederlandsch Indische Escompto Maatschappij (NIEM) was founded by the Batavian trading company Tiedeman & Van Kerchem. This private bank would confine itself throughout its existence to short-term commercial loans only, and successfully resisted the temptation of long-term engagements in the agricultural sector.

In the following years it became evident that the credit needs of private enterprise could not be serviced by the NHM and/or NIEM. There remained more than enough room for other initiatives, culminating in the establishment of the Rotterdamsche Bank, the Nederlandsch-Indische Handelsbank (NIHB), and the Internationale Crediet- en Handelsvereeniging "Rotterdam" (Internatio) in 1863. In addition, the Chartered Bank of India, Australia and China established an agency in Batavia (Van den Berg 1907: 116–117, 119–120; Van Laanen 1990: 254).

Heavy losses from 1868 onwards forced the Rotterdamsche Bank to discontinue its activities in the colony in 1874 (Brugmans 1963: 77–106).[77] The NIHB did better which can be attributed to its competent management, both in the Netherlands and the colony (Van Zwet 2004; Korthals Altes 2004: 25–93; Van den Berg 1913).[78] The company did have to weather one significant storm. In 1866 the bank's holding company – the Algemeene Maatschappij voor Handel en Nijverheid – ran into financial problems. It was not until 1873 that the ensuing problems were sorted out, severely curbing the NIHB's potential in the intermittent period (Brugmans 1963: 107–126; Korthals Altes 2004: 22–24, 53–54, 56–57, 60–61, 63–64; Van Zwet 2004: 80–85, 98–101). Internatio faced similar start-up problems in the first years of its existence. Its example sheds more light on the range of difficulties that private trading enterprise in general had to overcome during this pioneering phase.

### *Internatio's Turbulent Start*

The Internationale Crediet- en Handelsvereeniging "Rotterdam" (Internatio), was officially founded in Rotterdam on 28 August 1863. The initiative came from the textile manufacturing company G. & H. Salomonson in Nijverdal. After government sponsorship of textile exports to the Netherlands Indies ended, the Twente-based textile industry had to consider its options. The usual channel for trading textiles remained open, because the NHM continued to trade for own account. The market share of the NHM however dropped, because the profit margins it had to offer (potential) clients were considered insufficient. Most private Dutch trading companies were also deemed unfit because they lacked capacity and/

[77] Its clients were taken over by the Chartered Bank (Brugmans 1963: 106; Van Laanen 1990: 254).

[78] N.P. van den Berg – employee of the NHM since 1855, and future president of DJB and De Nederlandsche Bank (DNB) – was for instance appointed as its principal agent in Batavia.

or expertise. There were few that did meet the industry's demands. G. & H. Salomonson had to use a combination of services offered by Dutch companies in Rotterdam and Amsterdam (e.g. H. van Rijckevorsel & Co., Bos, Van Maanen & Co.), English trading companies in Batavia (e.g. Paine Stricker & Co, Thomson Roberts & Co.) and occasionally German trading enterprises in Hamburg or Bremen. The founding of Internatio secured a better outlet for Salomonson's products (Van Heekeren 1870: 6; Brugmans 1963: 71–72; Sipos 1992: 4–5).

Until the First World War the commission earned on textiles from Twente constituted Internatio's prime source of income (De Jong 1995: 12). Originally the company's activities had been envisaged broader. Internatio would engage in finance, trade, agricultural enterprise, as well as shipping all over the world. This scheme proved too ambitious. The company's resources were soon stretched to the limit. Internatio entered into trading relations with Japan, China, South Africa, British India and Chile, but abandoned these activities in 1865 and 1866 after sustaining heavy losses. Attention became focused on the Netherlands Indies. The trade in textiles, slowly supplemented by other commodities, became Internatio's core activity. Banking was only undertaken in support of the company's own commodity trade and agricultural engagements. ([Internatio] 1913: 11; [Internatio] 1938: 7; Brugmans 1963: 73).

Internatio was a Dutch venture, born out of the needs of Dutch commercial and manufacturing interests. The committee responsible for the establishment of the company consisted of people active in the trade and production of textiles in the Netherlands. Relevant experience and up-to-date knowledge of the local economic circumstances in the Netherlands Indies was therefore urgently needed. The same applied for the future Board of Directors. Dutch producers/exporters were well represented, among others by its president M.H. Salomonson Hzn. and H. Bos.[79] Colonial representation, however, went unheeded. Following the common procedure at the time a representative in the colony was sought in possession of the required skills (Van Heekeren 1870: 6). This could be a

[79] M.H. Salomonson Hzn. was a brother of the textile manufacturers G. & H. Salomonson in Twente. He was the Managing Director of the weaving mills his two brothers operated in Zeeland. He was also interested in the textile trade for which purpose he established his own company Salomonson & Co. in Rotterdam. In the 1850s he met H. Bos, a partner of the Rotterdam trading firm Bos, Van Maanen & Co. to whom G. & H. Salomonson entrusted the shipment of their merchandise. Both men associated themselves in 1856 to form the Zeeuwsche Weeverij Combinatie which exploitated the weaving mills owned by G. & H. Salomonson (Van Heekeren 1870: 24; Archief Internatio 445).

private person, like N.P. van den Berg in the case of the NIHB, or a company such as the Batavian trading firm Dümmler & Co. in the case of the Rotterdamsche Bank (Brugmans 1963: 90–91). Depending upon the deal, the representative might stay in business for himself, but frequently independence had to be surrendered in order to become an employee of the newly founded firm.

In 1863 Internatio went into business with the Semarang-based trading firm Van Maanen & Co. This amalgamation turned out to be an ill-fated undertaking, which lasted only 5 years. The year 1867 saw a major reorganization of Internatio's business activities in Java and led to the discharge of Charles Samuel van Heekeren as principal agent in Semarang. Van Heekeren opposed this decision vehemently and went to court to seek justice. In 1869 legal proceedings came to a close and Van Heekeren's dismissal was judged lawful. Feeling extremely wronged, he published a biting 'comment' – of no less than 150 pages – in which he lashed out at his (perceived) enemies. To defend himself against the accusations made by his former business partner, J. van Maanen put pen to paper as well. Both pamphlets document in great detail the business dealings of Van Maanen & Co./Internatio and provide a better understanding of how the bulk of the smaller general import/export firms operated in the colony towards the end of the Cultivation System.[80]

The trading firm of Van Maanen & Co. was named after its founder Joseph van Maanen who established the company in 1852. The Semarang-based enterprise was active in the general import and export business on a modest scale. On three occasions only did the company's shipments comprise large quantities of merchandise in the first decade of its existence (Mansvelt 1938: Appendices 2 and 3). Still, activities slowly expanded and assistance became required after three to four years. Until then Van Maanen had managed with the help of a European employee, J. Corver, and one Chinese cashier, Tjoa Goan Tjoan, who also traded in textiles and other commodities for own account (Van Heekeren 1870: 6).[81]

In October 1855 Charles Samuel van Heekeren – a bookkeeper at the Danish trading company Knagge & Co. in Semarang – was approached by Van Maanen and offered the position of Managing Director with power of

[80] This section is based partly on the pamphlets by Van Heekeren and Van Maanen. These are available in the Internatio archive and public libraries (Van Heekeren 1870: 3; Van Maanen 1870: 15; Archief Internatio 4, 10).

[81] This side-job had Van Maanen's full consent. He even vouched for his cashier's reliability at the NHM-agency in Semarang by standing surety for his debt up to *f* 4,000 (NA/NHM 5279 No. 50: 24).

attorney (Mansvelt 1938: Appendix 3). Van Heekeren accepted as of January 1856 and became a full partner in 1859. After three years Van Heekeren conducted business more or less on his own, especially after Van Maanen left Java for a prolonged stay in Europe. In 1862, A. Serruys – brother-in-law of Van Maanen – joined the firm and became the third partner. This lasted only a few months because of intensifying "family quarrels". Serruys was bought out by Van Maanen, who himself became a silent partner in the company and decided to transfer all decision-making to Van Heekeren.

The year 1862 turned out to be disastrous. Van Maanen & Co. lost approximately *f* 178,000 with the bankruptcies of Landberg, Bezoet, De Bie & Co. in Batavia and the wealthy rice trader J.F. Heckler in Indramayu (Mansvelt 1924: II 362). Van Heekeren must therefore have counted himself lucky receiving the first tentative proposal for a close cooperation with a new trading company in Rotterdam by the name of Internatio. A steady increase of turnover was more than welcome to recoup sustained losses. In July and August 1863 a series of letters arrived from Rotterdam, written by the preparatory committee and the Rotterdam trading company Bos, Van Maanen & Co. The latter firm was the catalyst in bringing Internatio and Van Maanen & Co. together. Bos, Van Maanen & Co. had been in close contact with both the Salomonson brothers and the Semarang-based company for years. Van Heekeren counted the Rotterdam firm among his most important trading relations, enabling participation in the lucrative textile trade.

It seems that family ties provoked the connection between Rotterdam and Semarang; Gillis van Maanen, an associate in Bos, van Maanen & Co., was the brother of Joseph van Maanen. The company was among the initiators of Internatio[82] and possessed an existing and viable (textile) trading link with the Netherlands Indies. Bos, Van Maanen & Co. was therefore assigned the task of securing this link for Internatio. The first negotiations with Van Maanen & Co. went smoothly and the idea was raised to cement the perceived trading relation in a permanent structure. The neutral term 'association' was used to describe a deal which came down to a complete

[82] G. van Maanen, acting on accord of Bos, Van Maanen & Co., is mentioned as one of the founders of Internatio on 28 August 1863. His associate H. Bos was present at the inaugural meeting of Internatio on 9 July 1863 and empowered to subscribe to the first series of 20,000 shares. He subscribed to 3,300 shares for a total amount of *f* 825,000 or 1/6 of all shares issued. M.H. Salomonson Hzn, acting for the Salomonson family and in-laws, subscribed to 4,750 shares or *f* 1,187,500, i.e. almost a quarter of all shares issued (*Jaarverslag Internatio 1864* 1865: 1; Archief Internatio 445).

takeover of Van Maanen & Co. Van Heekeren and Van Maanen would hand over their company in exchange for a contract of 5, respectively 3 years as Internatio's principal agent in Java plus a percentage of the net profit accruing from the Java trade for the same period.[83]

To close the deal Van Heekeren left Semarang in October 1863 and arrived in Rotterdam on 6 December. As requested he carried the necessary proof of his company's affairs: annual balance sheets of the period 1852–1862, a list of all the regular business associates of Van Maanen & Co., a complete overview of running commitments such as contracts with agrarian enterprises for the sale of their produce, and an assessment of the current state of affairs of enterprises the company owned. The information offered should justify a favourable outcome of Van Heekeren's trip. In the preceding decade Van Maanen & Co. had done reasonably well. The company had made an average annual profit of *f* 54,000. Van Maanen & Co. had engaged itself financially with a number of agricultural enterprises in Central Java in order to obtain the right of sale of their harvests. Glentingan, a tobacco plantation, was one of two enterprises owned by the company; the other one being an experimental and rather debatable silkworm-breeding farm. The other engagements consisted of 4 coffee, 1 tobacco and 1 indigo plantation. Total financial commitment to these 8 enterprises amounted to approximately *f* 510,000.

Next to financial and technical considerations, Internatio's management was also fully briefed regarding the most important aspects of trade in Java. Which commodities were most in demand and which could be exported most profitably from the Netherlands. With regard to the latter, the textile trade was given special attention. Van Heekeren had brought with him a set of textile samples, drawings and specifications. Based on this information an agreement was reached and Van Maanen & Co. was dissolved into Internatio on 1 January 1864. Part of the agreement was a promise to expand Internatio's activities in Java rapidly. This was vital in view of the payment conditions agreed upon which had to compensate Van Heekeren and Van Maanen for the loss of their independence by remittance of a percentage of the profit.

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[83] These percentages were specified as followed: 50% over the first *f* 100,000, 45% over the following *f* 50,000, 40% over the next *f* 50,000 and 25% over all profit exceeding *f* 200,000. The 'fair share' of the agents in Batavia and Surabaya – to be appointed – had to come out of the portion of the principal agents. It was left to their discretion how to proceed in this matter. The monthly wage of the principal agents was fixed at *f* 1,500 a month, while the agents would get a monthly salary of *f* 1,000 (Van Heekeren 1870: 9).

This intention had indeed been expressed in the first letter Van Heekeren had received from J.W. Muntz on 16 July 1863.[84] According to Muntz capital would be made available for trade and industry in the Netherlands Indies to support – among other initiatives – the expansion of private agricultural enterprise. However, it was specifically stated in the final contract that the agents would not commit Internatio to any agricultural enterprise unless Directors' approval had been obtained. Management preferred to keep its representatives on a short leash for fear of a drain on the company's limited capital resources. A tight control mechanism was devised to prevent this. The intended agencies in Batavia and Surabaya had to send full reports to the head-office in Semarang every month. The head-office was obliged to balance the books provisionally every three months in addition to the normal annual balance. Separate accounts concerning commission, expense, salary and commodity payments had to be kept. The agricultural engagements and accompanying contracts ought to be accounted for as well. All this had to be sent in regularly with an extensive monthly report concerning all important matters.

After signing the contract with Internatio, Van Heekeren visited the business associates of the now defunct trading firm of Van Maanen & Co. to inform them and made his acquaintance with the new ones brought in by Internatio. On 19 February 1864 he went aboard a French steamer in Marseille. In Singapore he was told of a devastating flood that had hit Semarang and its surroundings on 27 January.[85] He arrived in Semarang on 2 April to find his wife and only child safe and sound after an absence of more than 5 months. However, Internatio's business had fared less well. Tobacco stocks had been damaged and the silkworm-breeding farm was virtually destroyed. In a gesture of good faith – contested later by Van Maanen who asserted that the farm was grossly overvalued – Van Heekeren decided to carry the burden of the *f* 15,000 silkworm write-off. Apparently, he expected to earn management's gratitude for this and the recognition that they were in his debt.

The following years saw increasing strife between Internatio and its principal agents in Java which had little to do with circumstances like the

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[84] Muntz would become the secretary of Internatio's Board of Directors and its Board of Commissioners.

[85] Van Geuns' *Door Oost-Semarang. Een reisverhaal met beschouwingen* provides a chilling description of the devastation wrought by a flood (*banjir*) in the Semarang area as late as 1906 and clearly shows the problems encountered in the aftermath of such a disaster (Van Geuns 1906).

mentioned natural disaster.[86] In his emotional discourse Van Heekeren notes down a list of (perceived) grievances and shameful wrongdoings committed by the Directors, allegedly with the sole aim of getting rid of him.[87] To some extent these are counteracted by Van Maanen's statement, although he does not always sound convincing. What seems to have been at the core of the problem is a conflict over spheres of authority between the Dutch and colonial element present within Internatio.

In a letter to the Board of Directors on 11 May 1866 – at which time the mutual relationships had already soured – Van Heekeren wrote: "We are of the opinion that (central) management should be compared with a powerful shipping company having equipped a 'capital' ship[88] by the name of "*de Java*" and entrusting its leadership and command to the captain i.e. the Principal Agency. [...] work has to be directed towards one goal; the flourishing of the shipping company! But, although the main command of the shipping company is being conducted on the shore, the ship can have only one captain and [...] the captain alone is lord and master on his ship" (Van Heekeren 1870: 54). A few months earlier, he had used a different formulation: "The principal agents have to be shown trust instead of distrust, recognition instead of disdain, because *Java cannot be governed from Rotterdam* (Van Heekeren's italics), for people in the Netherlands know our colony too little, its different circumstances, customs and needs [...] (Van Heekeren 1870: 43)."

Despite the fact that on many occasions Van Heekeren seems to have had a point, the Directors in Rotterdam were not willing to admit to any mistakes. Internatio's memorial volume of 1938 states that although

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[86] Van Heekeren would remain in office until his involuntary discharge in 1867. J. van Maanen asked to be discharged in December 1864. It would take till 1 August 1865 before his succession by J.C. van der Zweep – a former captain in the merchant navy, sugar contractor and tobacco planter – had been settled. Apparently, Van der Zweep had done fairly well in the colony, allowing him to settle permanently in Rotterdam as a person of independent means. He was described as such in 1863 when becoming one of the co-founders/commissioners of Internatio in which he subscribed for *f* 37,500. His appointment served to enable better supervision on the spot and therefore constituted the first attempt to strengthen the hold of 'Rotterdam' on business conducted in Java. But this scheme backfired spectacularly for Van der Zweep seems to have sided with Van Heekeren on more than one issue. His position soon became untenable and towards the end of 1866 he asked to be discharged with total aquittance which was granted only after extremely turbulent negotiations (Van Heekeren 1870: 21–22, 54, 60; [Internatio] 1913: 7; Archief Internatio 445).

[87] In his agitated state of mind Van Heekeren went as far as labelling the actions of the Directors and his former business partner "jesuitic" and "satanic" (Van Heekeren 1870: 59–60).

[88] In this context the word 'capital' signified investment (funds).

management[89] was full of good intentions, it lacked experience with regard to colonial cultural enterprise and the purchase of products to be exported from the Netherlands ([Internatio] 1938: 8). Van Heekeren put it more bluntly in 1865 when writing to Van Maanen: "They are not the right men in the right places". The ambitious business objectives of Internatio added to the problems. As a result management had to divide its attention to the detriment of the Java trade.

Van Heekeren complained that management in Rotterdam did not use the regular sending of textile samples and the specification of patterns and quantities in accordance to the requirements of the three main market places: Semarang, Batavia and Surabaya. No attempts were made to interest Dutch manufacturers, and he claimed to receive goods deviating completely from his requests. This was not confined to textiles since Van Heekeren grumbled about meaningless, unwanted and difficult to market products being sent to Java, despite his guidelines and repeated suggestions. These products had to be distributed under many retailers in extremely small quantities which took long and was hardly profitable.

Of equal nuisance to Van Heekeren was the lack of financial assistance. Time and again he wrote that in order to expand business he had to have more funds at his disposal. The example of Ho Kong Sing has shown that the textile trade was conducted on credit. The same applied to agricultural enterprise, which could only operate by receiving advances. The colonial export/import business demanded large cash outlays which needed to be financed. Internatio however was short of cash. Loss-making ventures in other parts of the world had drained its resources and shaken the public's confidence. Besides, the textile manufacturers would only export their products upon receiving a high percentage (± 80%) in advance; reputed companies like G. & H. Salomonson would even get 95 up to 100% (Brugmans 1963: 71–72). Consequently head-office in Rotterdam was in dire need of cash as well. The circle closed when Internatio's management started to accuse Van Heekeren of displaying unwillingness in remitting funds earned from the sale of products exported from the Netherlands.

Internatio was seriously crippled by the continuing power struggle and financing difficulties. In October 1866 Van Maanen suddenly returned to Semarang. After his retirement he had moved to the Netherlands, but he was sent back for a thorough and rigorous reorganization. We will

[89] Directors M.H. Salomonson, H. Bos and P.F. Bicker Caarten and secretary J.W. Muntz.

probably never know what role Van Maanen played in all of this. In the eyes of Van Heekeren he was a perfidious Judas, who put a knife in his back while posing to be his friend. Upon his suggestion Van Heekeren took a six-month leave and travelled to Europe to resolve the situation personally. He came to regard this as a conspiracy to get him out of the way and present him with a fait accompli at a later stage. The outcome would probably have been the same: Van Maanen stepped in and Van Heekeren was fired.[90] New agents were appointed and Batavia and Surabaya acquired more independent positions. Semarang ceased to be the principal agency.[91] It had now become clear who was captain of the ship '*de Java*'.

Internatio was wrong to count on a quick ending of the internal troubles. Business did not improve under the new principal agent Suermondt which contributed to a near-total sense of malaise. 1868 turned out to be a year of disaster (*rampjaar*), especially with regard to the import trade where Chinese and Arab bankruptcies had seen significant write-offs.[92] Internatio was in dire straits. In April 1870, after yet another bad year, it was rumoured in Batavia that Internatio would not hold out longer than twelve to eighteen months.[93] At the same time, the business of Van Heekeren's discharge was raked up with the publication of his booklet. The shareholders meeting of June 1870 was marked by great tumult and even had to be suspended. Notwithstanding their soothing arguments Directors and Commissioners were accused of gross incompetence and mismanagement. In general shareholders considered the situation in Java rotten to the core ([Internatio] 1913: 13; [Internatio] 1938: 9–11).

Trust in the capabilities of Internatio's management ran at an all-time low and the situation was considered so tense that C.P. Sander – President

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[90] Van Maanen would stay in function as the Semarang agent until his honourable discharge on 31 December 1868 (*Jaarverslag Internatio 1868* 1869: 5; BI/DJB 36 No. 351: 362–363).

[91] In June 1867, W. Suermondt Wzn – former partner of the Batavian trading company J. Cezard & Co. – was appointed as Internatio's principal agent which shifted Internatio's headquarters in Java from Semarang to Batavia. At the same time, A. Ruebenkoning and A.L. Teixeira de Mattos became the new agents for Batavia and Surabaya (Van Heekeren 1870: 35–38, 61; BI/DJB 35 No. 274: 259–260).

[92] On account of these defaults nearly *f* 167,000 could not be retrieved, or almost half of total outstanding credit which amounted to *f* 338,000. Total losses over 1868 reached a staggering *f* 818,000 and the company's shares were at this point in time traded at 47% of their issued price (*Jaarverslag Internatio 1868* 1869: 7, 13–14; [Internatio] 1938: 11; Van den Berg 1907: 204).

[93] BI/DJB 38 No. 5: 22.

of the Board of Commissioners – recommended seeking legal council.[94] In the end a vote of no confidence could only just be avoided and although the matter finally did calm down, Internatio was forced to count its losses. It had to reduce its statutory capital by half and subsequently had to operate very cautiously (*Jaarverslag Internatio 1869* 1870; *Jaarverslag Internatio 1870* 1871; Van den Berg 1907: 204, 206). From 1870 onwards the company limited itself to the trading business and tried to refrain from agricultural commitments, dubbed by its management a Netherlands Indies "disease". However, private enterprise was allowed to penetrate the Javanese countryside more freely after 1870 and Internatio would not be able to withstand the temptation to compete in this highly risky business environment.

Two factors seem to account for Internatio's turbulent start, i.e. the distinctive lack of experience in colonial trade practices at the company's head-office in Rotterdam and the paralyzing power struggle between Dutch and 'colonial' management over authority issues. The latter factor severely aggravated by an *incomptabilité d'humeur* or personal animosity between the men involved. Internatio's example vividly illustrates the demanding nature of trade in Java prior to 1870. The main reason being a lack of finance opportunities due to a highly inadequate credit system. This proved a serious obstacle for any expansion of trading activities since a substantial amount of time and effort had to be devoted to makeshift measures. This drained resources and undermined the potential of the trading company. Improved access to capital was therefore of crucial importance for a smoothly functioning trade mechanism.

### *The Slow Adjustment of DJB*

In November 1857 and again in April 1861 the trading community of Padang – a town on the west coast of Sumatra – requested DJB to open a branch office for the benefit of its business operations.[95] On both occasions management decided against. In 1857 DJB's field of operation was apparently strictly confined to Java, whereas in 1861 financial resources were considered too limited. Therefore, DJB remained present only in the

[94] In a letter dated 6 September 1870 C.P. Sander reminded his fellow commissioners of the agitated state and highly inappropriate behaviour of some of the shareholders during the last postponed meeting. He therefore urged them to seriously consider ways to moderate the tense atmosphere in view of the next meeting to be held that same month (Archief Internatio 4).

[95] BI/DJB 29 No. 458: 245–246 / BI/DJB 29 No. 468: 256.

three main commercial centres in Java, i.e. Batavia, Semarang, and Surabaya.[96] Still, it was obvious that an enhancement of credit and exchange facilities had been long overdue. Starting in 1864 no less than five new branches were established in a time span of 3 years: Padang (1864),[97] Makassar (1864), Cirebon (1866), Pasuruan (1867), and Solo (1867) (De Bree 1928–1930: II 82–88, 579).

Any expansion of DJB's activities was considered meticulously beforehand, as becomes clear from a number of detailed reports in which the matter was treated exhaustively. These reports show the considerations which influenced the decision-making process. Extensive market research was an important component of this preparatory phase. For instance, in August 1863 D. Schuurman – DJB-agent in Surabaya – was sent to Makassar to conduct a full-scale investigation into the prospects of establishing a branch office there. He carried with him an instruction from the Directors comprising no less than 29 questions subdivided into numerous sub questions. Over half of these questions dealt with the prevailing trading situation on the spot, in particular the volume and content of both imports and exports, the number and (ethnic) identity of the traders, capital flows, etc. Closely related questions concerned the expected attitude of the trading elite and authorities towards DJB. Would, for instance, the governor and prominent members of leading trading companies be willing to sit on the Board of Commissioners? To achieve this, some delicate lobbying was required. If successful, it would greatly benefit the future economic and social position the newly founded branch office would come to occupy. Other questions centred around the monetary situation and more practical matters, such as the purchase of an office building.[98]

The importance of obtaining relevant and detailed information is also evident a few years later when Pasuruan was considered a possible candidate for further expansion of DJB's activities.[99] In September 1866, Schuurman was commissioned to conduct an investigation into the prospects of such a venture. The local business elite – European and Chinese alike – actively promoted this, emphasized its urgency and even proposed

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[96] These offices had been founded in 1828 (Batavia) and 1829 (Semarang and Surabaya). In other words, DJB's area of operation had seen no changes for more than 3 decades (De Bree 1928–1930: II 579).

[97] In May 1864, a few months before DJB established its branch office in Padang, a third request was received from the commercial elite of Padang (BI/DJB 31 No. 92: 498–499/ BI/DJB 32 No. 113: 71–74).

[98] BI/DJB 31 No. 11: 65, 67, 72–75.

[99] BI/DJB 35 No. 242: 83; BI/DJB 35 No. 265: 211–228; BI/DJB 35 No. 277: 270–271.

to cover all costs related to DJB's arrival for two years. At the time Pasuruan hosted three European import firms (NHM, Fraser Eaton & Co., and Van der Hart & Co.), all specializing in the sale of textile products. These businesses were supplemented by several Dutch shopkeepers, selling consumer goods to the upper echelons of local society. With regard to the textile trade only one Chinese merchant competed with the European importers. However, the Chinese in general had a far more diversified sales strategy aiming their product assortment predominantly at the needs of the indigenous population. In total, Chinese commerce comprised twelve traders – not counting the many pedlars – who would hawk their superiors' cheap consumer goods in the countryside. Operating in the margin were several small Arab and Javanese traders, who were mentioned but not identified in Schuurmans report.

The cash flow generated by the Pasuruan trading business was in itself not sufficient to warrant the establishment of a DJB branch office in the area, especially considering the proximity of Surabaya. Since the traders visited Surabaya regularly to purchase new merchandise, they had ample opportunity to use the extensive banking facilities there. But, located in the so-called 'sugar corner' of Java, Pasuruan was surrounded by a total of twenty sugar factories, equally divided among European and Chinese owners. For working-capital alone, these factories needed approximately *f* 1,000,000 year and generated an annual turnover of an estimated *f* 2,000,000. Since the combined capital flows of trade and manufacturing had reached such a high level, the transfer of money through DJB would constitute a significant improvement. In the current situation money was collected and transported between the two cities.[100] Whereas the well-to-do travelled back and forth personally, the smaller entrepreneurs were forced to take part in a *kongsi*. This implied mutual recognizance and interest payments in connection with the costs and risks of the transport.

The Pasuruan branch office was established in 1867 despite the negative advice of Schuurman. Being the agent of the Surabaya office he cannot have welcomed the competition of a new office nearby. Nevertheless, his arguments must have held some truth given the closure of the Pasuruan branch in 1890. As predicted by Schuurman, the profitability of the office had proven to be questionable. However, DJB's obligations as

[100] Although not mentioned by name, Pasuruan had at least four wealthy traders 'playing' banker in a private capacity. They were all considered usurers by DJB because of the disproportionately high interest rates they charged (BI/DJB 35 No. 265: 217).

the colony's central bank went beyond mere profitability arguments.[101] Besides, with an underdeveloped banking sector in 1867 DJB had been the only one able to act. The position of DJB at the time was such that it could afford a gesture of good will.

This seemingly impregnable position was about to change as DJB's management soon learned. After 1870 private enterprise was allowed more freedom and the resulting investment needed to be financed, creating numerous opportunities for banking activities of all sorts (Sihotang 1983: 18–24). Under the new agrarian regulations it was possible to conclude long leases on uncultivated land for the purposes of plantation agriculture which boosted the production of sugar and coffee in particular (Creutzberg 1975: 20; Wertheim 1994: 60). The Sugar Act of 1870 placed sugar exports in private hands (Korthals Altes 1991: 15). At DJB's head office in Batavia expectations were raised. In the weekly meeting of President and Directors on 13 June 1872 the decision was made to raise the bank's rates by 1%. The management was unanimously of the opinion that demand for credit would surely rise, because of the larger amounts of sugar to be traded on the market.[102] And so it did. But, the increased demand created its own supply as well. DJB started to experience fierce competition; no longer did it enjoy its former mighty position.

Even more worrying was DJB's diminishing market share. It began to loose ground on its own favourite turf: the extension of credit for trading purposes (Van Laanen 1980: 34). In November 1878 the situation became alarming and a special meeting was convened to discuss the position and to suggest measures to counter this undesired development.[103] Should the interest rates of DJB come down? In the end, this course of action was rejected. It was highly unlikely that it would help regain DJB's market share, while it could easily be calculated that an annual loss of *f* 45,000 would be incurred.

Taking such a decision had required a thorough analysis of the Batavian money market. This showed how fundamentally the financial sector had altered in the time span of only twenty years. Before 1857, DJB was the only institution offering financial services to the trading sector. Outside DJB traders could only turn to three insurance companies and some private administration offices, like Reynst & Vinju. In 1878, this situation had changed beyond recognition. The following institutions were

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[101] See Chapter 2, Paragraph 'The Moulding of an Economic Framework NHM and DJB'.
[102] BI/DJB 40 No. 117: 26.
[103] BI/DJB 45 No. 59: 415–436.

earmarked by DJB as competitors in the financial sector: four commercial banks (i.e. the NIHB, the NIEM, the Chartered Bank, and the Chartered Mercantile Bank); several *spaarbanken* (savings banks) eleven insurance companies; numerous administration offices; and two private firms (Reijnst & Vinju, and the Armenian trader Arathoon). In the words of one of the discussants:

> It cannot be denied, when compared to former years, that there is a lot – I would say – too much money in the Indies.[104]

Little could have been suspected how prophetic these words would turn out to be in five years' time.

With a thriving financial sector at hand, trading firms should have had less difficulty in gaining access to capital. This would have enabled them to escape the permanent squeeze of simultaneous credit demands from buyers and suppliers. This assertion seems to hold true. Nevertheless, when it came to spending money, bankers and traders did not wish to be reckless. Fulfilling the credit needs of the trading sector meant the build-up of an intricate control-mechanism. The trading companies needed to assess not only the validity of credit requests but also the expectation of having their outstanding capital returned with a profit. Exactly the same considerations played in a banker's mind the moment a trader knocked on the door to ask for credit.

Protecting capital outlays through a control mechanism was of eminent importance for the survival of all participants involved in the trading business. Credit was never extended without collateral, e.g. in the form of property, or a range of different commodities. Frequently, a loan had to be guaranteed and co-signed by another individual deemed to be solid and trustworthy. Though striving for complete security, the commercial sector knew that there would always be an element of risk and uncertainty. To eliminate the risks as far as possible, traders and bankers needed information.

Often, information had to be distilled out of rumours and hearsay. The sensitivity of credit matters and the personal sphere in which business took place, kept information gathering low-profile and highly dependent on the skills of the people involved. Information was handled in an unstructured and rather haphazard way. The necessity of a formal information structure was however not lost on everyone. The problem was acute for the larger enterprises with several agencies spread over the

[104] BI/DJB 45 No. 59: 435.

Indonesian archipelago. The smaller ones had less incentive to invest in systematic accounts and appraisals of their debtors. However, they were sometimes obliged to do so by their financiers who could not afford to take such matters lightly.

At DJB, there was never any misunderstanding about the importance of a steady flow of information. Information was considered an extremely valuable asset. An undisturbed flow was guaranteed by instructing the agents to report on all matters of concern. This resulted in an overwhelming weekly correspondence. Letters (labelled confidential or secret) and telegrams (sometimes encoded) were constantly exchanged. The telephone would later add to this avalanche of messages. This reporting added substantially to the agents' already massive workload and was aggravated by the awareness of a highly demanding head office in Batavia which was not easily satisfied.

This may be illustrated by an example from December 1877 when the Semarang agent's rather harmless negligence caused him an immediate reprimand. Upon hearing rumours in Batavia of a Chinese trader's default in Semarang DJB's President, N.P. van den Berg, immediately telegraphed Semarang for further inquiries. The next day, the rumours were confirmed: a certain Ong Siok Yoan had defaulted with a total debt of about *f* 300,000. Despite the fact that the Semarang agency was not involved, DJB's management decided to express its dissatisfaction over having to learn such important news indirectly. These events should have been reported by the agent and he was reproached for lack of diligence.[105]

To control DJB's business outside Batavia President and Directors visited all the offices routinely. Additional information was occasionally obtained through the mediation of others, like the NHM, or the Chartered Bank.[106] A formal cooperation between the financial institutions did however not exist. In October 1877 the desirability of such a scheme was debated within the confines of the President's chamber at DJB. At the time it had become impossible to know to what extent companies were indebted to the different banks. The exchange of credit information would lead to greater transparency and a substantial reduction of risks. Nevertheless, bound by its statutes which forbade the disclosure of these figures, DJB's management could not proceed with the plans and had to abort them prematurely.[107]

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[105] BI/DJB 45 No. 56: 391–392.
[106] BI/DJB 39 No. 80–81; BI/DJB 45 No. 13: 89; BI/DJB 50 No. 39: 149.
[107] BI/DJB 45 No. 37: 255–256.

A more formalized credit rating structure was not feasible yet. DJB still had to rely primarily on the information provided by the loan applicant himself, supplemented by bits of information collected here and there. Though reluctantly most trading companies would make their accounting books available for scrutiny upon the banks' request. In most instances, an abridged balance-sheet with some additional information would suffice. For some traders even this proved too much. They preferred to make a statement of their affairs in a personal conversation with the agent, at best allowing him a superficial glance in the records. Given the cramped trading conditions, however, the commercial sector could not do without financial support. The dependence on the banks was so great that they were rarely denied access to confidential company information.

Whenever this happened the banks were not amused. One such occasion occurred in Semarang in late 1883 when DJB considered the application of a *f* 124,0000 loan by the machine importer firm Van der Linde & Teves (Kind 2000). Since little was known about the financial means of the company, doubt existed whether it could meet its obligations punctually. The Semarang agent made inquiries, but was turned down flatly by Teves himself. Batavia considered this a deliberate obstruction. The credit limit of Van der Linde & Teves was subsequently reduced and set at the negligible amount of *f* 10,000 – *f* 15,000.[108]

*Wholesalers and Retailers: Van Beek, Reineke & Co. - HVA*

The trader also faced the problem of rating the creditworthiness of his buyers. Only with difficulty small bits of information could be obtained, usually from one source which on many occasions would be the client himself. With respect to the import trade this dilemma was arguably even worse. The importer's clientele consisted for the most part of Chinese retail traders whose account books and records would be in Chinese. The additional culture and language barrier undercut an already feeble controlling mechanism. This attributed to a feeling of insecurity which became acute whenever a bankruptcy involved a Chinese trader. Time and again, suspicions were raised as to whether the insolvency might be fraudulent in order to harm the creditors by keeping all or part of the extended money. Efforts were therefore made to compel the Chinese

[108] BI/DJB 51 No. 39: 163; BI/DJB 51 No. 43: 181.

traders to keep their books in a European language which in the end proved to be unsuccessful.[109]

A solution to this problem was hard to find since both parties could not operate without each other. Wholesalers needed an outlet for their imports and retailers needed credit to keep their business running. Common sense and prudence had to guard against reckless and speculative behaviour. Spreading credit over a large number of buyers was the most sensible course of action, because there was no way of knowing to how many importers and for what amount a client might be indebted. The default of the Semarang trader Tan Djie Djoe in May 1879 is an obvious case in point. His bankruptcy affected a total of thirteen creditors, of whom no less than twelve were European import companies.[110] There was only one Chinese creditor to whom Tan was indebted the relatively small sum of *f* 4,000. Because of the large number of companies involved, Tan's total debt exceeded *f* 194,000: an average debt of almost *f* 15,000 per creditor.[111] In practice, Tan's debt was not that evenly spread. There were important differences between the various trading companies who had given him credit. The trading firm Bahre & Kinder was most seriously affected with an engagement of nearly *f* 40,000, whereas other companies had committed themselves for much smaller amounts.

*Van Beek, Reineke & Co. / HVA*

The trading company Van Beek, Reineke & Co. – dissolved and converted into the Handelsvereeniging Amsterdam (HVA) in 1878 – offers a rare opportunity to look at the policy of an import firm with respect to its debtors.[112] The HVA was envisaged as a general import and export company. Participation in agricultural enterprises was ruled out categorically.

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[109] See for an interesting and detailed account of such accusations with regard to the numerous defaults of Chinese textile traders in Batavia in the middle of the 1860s, the small booklet written in defence of the Chinese intermediary traders by the former President of DJB, F. Alting Mees. By no means sharing the same favourable outlook but equally convinced of the superficiality of the accusations was P. Meeter, who discussed the subject in 1881 with special reference to the situation in Surabaya during the period 1876–1881. Decades later P.H. Fromberg would write a more apologetic article pertaining to the same question (Meeter 1881; Alting Mees 1884; Fromberg 1926).

[110] BI/DJB 38 No. 19: 43.

[111] Conducting business with a large number of companies for relatively small amounts was a common factor shared by Chinese entrepreneurs at the time, and explains the general underestimation of the scale of Chinese business in the Netherlands Indies.

[112] BI/DJB 46 No.39; BI/DJB 52 No. 68.

Extending short-term credit to plantation owners for the export of their harvests was allowed under condition that the company's capital resources had to remain liquid. Contracts whereby capital would be tied up for long or indefinite periods, would not be sanctioned for fear of a shortage of capital which could seriously impede the company's chances of survival (Helfferich 1914: 120; Goedkoop 1990: 221).[113]

The HVA incorporated an existing trading firm. Combining 'foreign' investment capital and 'colonial' trade experience offered the best guarantee for new players in the trading arena.[114] The converted trading company had been active in Batavia under the name Van Beek, Reineke & Co. and in Surabaya where it operated under the name Wille, Gans & Co. The Batavia office had been led by W. Wille and the Surabaya branch had been supervised by his business associate V.E. Gans.[115] This situation remained unchanged except for the fact that from now on both men acted as agents of the HVA. A substantially different position in which they were accountable to the company's head office in Amsterdam and could no longer determine company policy independently.

J.L. Kuinders and H. Reineke became HVA's first Directors overseeing and directing business operations from Amsterdam. Reineke was the founder and owner of the Amsterdam trading firm H. Reineke.[116] He had conducted business with the Netherlands Indies, but was also a partner in Van Beek, Reineke & Co. (Goedhart 1999: 16, 342). Because of him the two associated companies in Batavia and Surabaya were considered as a possible foothold for the HVA in Java.[117]

Van Beek, Reineke & Co. in Batavia and Wille, Gans & Co. in Surabaya fitted the requirements of the HVA. Both firms had an extensive and well-populated hinterland and were strategically located in large urban communities at the western and eastern end of Java. Both were medium-sized companies with limited commitments in the agricultural sector, experienced in import trade with a good reputation and a sizeable and solid customer profile.

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113 BI/DJB 47 No. 52: 425.

114 BI/DJB 46 No. 48: 548–549.

115 The latter had acquired a reputation of being a cunning businessman with Chinese traders awarding him the nickname *pinter boesoek* (BI/DJB 1358 Correspondence Surabaya branch office, 5 June 1890: 1).

116 This company was also dissolved and brought into the HVA after its establishment in 1879 (BI/DJB 1358 Correspondence Surabaya branch office, 5 June 1890: 1).

117 BI/DJB 1358 Correspondence Surabaya branch office, 5th of June 1890: 1.

In March 1876, DJB made inquiries into the financial strength of Van Beek, Reineke & Co. and its partner firm Wille, Gans & Co. In a personal conversation with N.P. van den Berg, W. Wille gave a general overview of all activities.[118] It turned out that business in Batavia and Surabaya was conducted with a total capital of *f* 285,000, divided between an initial capital of *f* 250,000 and two bank loans worth *f* 35,000 over which interest had to be paid. The company's performance in 1874 had been satisfactory with combined net profits of both branches at *f* 40,000. For 1875, Wille estimated a growth of profit to approximately *f* 80,000.

The greater part of the company's capital (86%) was used to support its trading activities. According to Van den Berg the company traded in a number of import products of which it held sizeable stocks.[119] In his opinion the distribution of goods was sluggish. Before being retailed articles were on the shelves for quite some time. Selling them to intermediate traders took time, effort and substantial credit.[120] However, temporary credit assistance by DJB was not ruled out. This allowed the company to continue its policy of carefully selecting its clients and evaluating their outstanding credit on a regular basis.

A prominent business relation of Van Beek, Reineke & Co. was Said Hoessin bin Mohamad bin Aboe Bakar Aydiet.[121] Aydiet was Major of the Arabs in Batavia from 1879 till 1884, very wealthy and in high esteem (Mandal 1994: 80).[122] He owned property and land in and around Batavia worth at least *f* 30,000 including the estates of Solitude, Ragunan-Condet and Bendungan and a sailing vessel with an estimated value of *f* 40,000 (Heuken 1996: 66, 68, 71). This ship was used to transport rice and tin to and from Bangka after he had acquired the government contract. A very profitable monopoly which saw an annual surplus of *f* 60,000. Van Beek, Reineke & Co. administered this venture and accommodated Aydiet's

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[118] BI/DJB 43 No. 48: 311–312; BI/DJB 44 No. 21: 289–291.

[119] A glance at the company's records shows the variety of products imported from the Netherlands via the trading firm H. Reineke. These included mirrors, knifes, scissors, textiles, stockings, wax, matches, locks, eau de Cologne, etc. (Brand 1979: 16–17; BI/DJB 44 No. 21: 290–291).

[120] An indication of the time consuming and laborious efforts needed to successfully retail the products can be found in Wille's account. Chinese are described as difficult, fond of bargaining and unwilling to part with their money. However, according to him the deliberate and endless haggling of the 'difficult' Chinese was also evidence of a good business mentality (BI/DJB 46 No. 39: 419).

[121] BI/DJB 43 No. 48: 312; BI/DJB 46 No. 39: 421–422.

[122] See Mandal (1994: 70–83) for an overview of the Arab officer corps in the Netherlands Indies during the nineteenth and early twentieth century.

expenses such as shipping and insurance fees. The arrangements provided Aydiet with a monthly credit at a maximum of *f* 8,000. Van Beek, Reineke & Co. received a fixed annual commission of *f* 15,000 in return.

Van Beek, Reineke & Co. had many other business relations. The archive of DJB contains two lists of the company's Chinese and Arab debtors in Batavia and its surroundings.[123] These lists clarify the policy of an import firm towards its clientele. The first list from July/August 1878 was compiled and sent by W. Wille to N.P. van den Berg upon the latter's request. In 1884, a new list was presented to DJB. It was compiled by J.J. Benjamin, a senior member of the HVA branch office in Batavia (Brand 1979: 12). On both occasions DJB's management expressed the opinion that the accounts were thorough and truthful.

The information contained in these overviews is summarized in Table 2.5. The following conclusions can be drawn from it. First, in 1878 total credit extended could run as high as *f* 1,500,000 which put some strain on a medium-sized company like Van Beek, Reineke & Co. operating with a working capital about six times less. There is some indication that full credit exhaustion was a normal feature. According to Wille, it was not unheard of that credit limits were even exceeded, especially during the 'good' season.[124] Apparently, the company could not afford to be too stringent for fear of losing clientele. Fort his reason the short-term credit arrangements were carefully watched. Missing an expiry date usually meant an immediate reduction of a debtor's credit limit. The company was obliged to resort to this measure since payment was guaranteed by a third party in five cases only, leaving 97% of all credit without additional security.

Van Beek, Reineke & Co.'s customer profile consisted almost exclusively of Chinese and to lesser extent Arab retail traders. On average, the individual credit limit stood at approximately *f* 10,000. There was a large

[123] BI/DJB 46 No. 39: 383–439; BI/DJB 52 No. 68: 299, 307–326.

[124] The 'good' season (June till August) was associated with the period following harvest sales and the festivities surrounding the Javanese New Year, at which time a lot of money became available and/or was spent. The resulting cash flow significantly improved the liquidity of retail traders, enticing them to do business on a larger scale. This course of events repeated itself at the end of the fasting month, but there is a clear distinction since *Ramadan* and *Lebaran* are not tied to a specific date but differ from year to year. Therefore, this occasion cannot be considered part of the 'good' season right from the outset. Traditionally, the months January till April were considered the 'bad' season since the indigenous population not only had less money to spend but was often severely indebted, due to the accepted advances without which they were not able to plant crops. As a consequence, business (i.e. retail trade) slowed down remarkably during this period (Meeter 1881: 21–22).

Table 2.5. Customer profile of the Batavia branch of Van Beek, Reineke & Co. / HVA (1878, 1884).

*Number of customers*

| | 1878 | | 1884 | |
|---|---|---|---|---|
| Chinese | 97 | 66% | 90 | 82% |
| Arabs | 51 | 34% | 22 | 18% |
| Total | 148 | 100% | 112 | 100% |

*Credit extension* ($f$)

| | 1878 | | | 1884 | | |
|---|---|---|---|---|---|---|
| | | x | >x | | x | >x |
| Chinese | 1,000,000 | 10,000 | 32% | 600,000 | 7,000 | 42% |
| Arabs | 500,000 | 10,500 | 30% | 300,000 | 13,000 | 41% |
| Total | 1,500,000 | | | 900,000 | | |

x = average credit extended
>x = percentage of debtors receiving credit above average

*Diversity of trading activities*

| | 1878 | | | | 1884 | | | |
|---|---|---|---|---|---|---|---|---|
| | Chinese | | Arabs | | Chinese | | Arabs | |
| Single* | 27 | 28% | 45 | 88% | 27 | 30% | 19 | 86% |
| Multiple* | 70 | 72% | 6 | 12% | 63 | 70% | 3 | 14% |
| Total | 97 | 100% | 51 | 100% | 90 | 100% | 22 | 100% |

* = number of products

*Place of operation*

| | 1878 | | | | 1884 | | | |
|---|---|---|---|---|---|---|---|---|
| | Chinese | | Arabs | | Chinese | | Arabs | |
| Batavia | 73 | 75% | 11 | 22% | 72 | 80% | 13 | 59% |
| Rest | 24 | 25% | 40 | 78% | 18 | 20% | 9 | 41% |
| Total | 97 | 100% | 51 | 100% | 90 | 100% | 22 | 100% |

Source: BI/DJB 46 No. 39: 383–439; BI/DJB 52 No. 68: 307–326.

variety among the members of each group. The figures show that Van Beek, Reineke & Co. operated cautiously in this respect by allowing only one-third of its debtors to receive credit above average. Chinese and Arab customers seem to have been treated equally.

The Chinese did not take their business much outside Batavia and traded in many products such as food and beverages, clothing, household

goods and an astonishing variety of fashionable articles.[125] The Arabs spread their activities over a far wider area, and specialized exclusively in the textile trade. Only a few of the more wealthy merchants – like Aydiet – were active in the shipping and trade of other products, mainly commodities such as rice, petroleum, iron, or cokes (i.e. fuel).

In 1878 Van Beek, Reineke & Co. prided itself that they were not involved in the bankruptcies of Arab traders of that year. Their losses were of minor importance due to a timely reduction of credit limits. This was achieved by closely monitoring the behaviour of customers in an attempt to estimate their financial position.

Wille described how Van Beek, Reineke & Co. obtained the required information on the financial position of their customers. First, inspection trips were carried out regularly. In his report, Wille repeatedly mentioned how specific details were gathered by his associate Gans, while visiting the company's business associates located along the *Pasisir*. Second, inquiries were made concerning 'suspected clients' by contacting European trading companies operating in the same city or area. Third, Van Beek, Reineke & Co. made optimal use of its privileged connection with Major Aydiet, who kept concise and updated records of the Arab community in Batavia. Undoubtedly, access to this unique source of information must have been invaluable in penetrating the Arab network of business relations. The Chinese business environment was accessed similarly through two members of the influential Oey clan. They were given credit up to *f* 50,000, the maximum amount extended by Van Beek, Reineke & Co. In addition, the future Captain of the Chinese in Batavia, Lie Ang Ie, was among the most prominent clients of Van Beek, Reineke & Co.[126]

In 1884 the customer profile of the HVA (formerly Van Beek, Reineke and Co.) in Batavia basically showed the same pattern. The predominance of Chinese traders had become even stronger which can be attributed to the establishment of a new agency in Semarang (Brand 1979: 12). The 22 Arab traders active along the *Pasisir* (Cirebon, Tegal, Pekalongan, Semarang) could now make use of the credit facilities offered by this branch office and had shifted their accounts from Batavia to Semarang. More remarkable is the reduced level of total credit extension of the Batavia office, decreasing from *f* 1,500,000 to *f* 900,000.

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[125] Items mentioned were: pottery, glassware, bread, paint, toiletries, matches, Manilla cigars, petrol, watches, yarn, rice, wax, etc.

[126] More information regarding the Oey clan can be found in Knaap (1996: 141–142).

Though understandable given a sharply diminished Arab clientele, another explanation has to be found regarding the Chinese whose average credit limit fell from *f* 10,000 to *f* 7,000. The reason has to be sought in the severe economic crisis that Java experienced in 1884. The downfall of the world market price for main agricultural export products such as sugar and coffee seriously affected the purchasing power of the Javanese. Fearing a series of Chinese bankruptcies resulting from a lower rate of turnover and deferred debt repayments by the indigenous population, the European wholesale import traders scaled down credit limits as a pre-emptive measure. In the case of the HVA its financial commitment to seven agricultural enterprises was also of influence since it utilized as much as *f* 1,150,000 of the company's capital in 1884 (see Table 3.3). Therefore, capital resources could not be fully mobilized for import activities.

This trend became more pronounced in the following years. In 1891 the HVA's engagements with 19 agricultural enterprises amounted to *f* 3,690,000. Nevertheless, the firm's import activities remained considerable and were expanded as testified by DJB's agent in Surabaya in 1890. In his appraisal of the HVA, he compared its position with Internatio concluding that both companies were probably well matched, at least in Surabaya.[127] In 1910 the HVA nonetheless ended its import activities in order to specialize on the management of agricultural enterprise and the export of its products.[128] Up till then, the import trade had continued to flourish and had actually contributed more to the company's profitability than the export business in the years prior to this decision.

The problem was that importing goods consistently required *f* 4,000,000 to *f* 4,500,000 and this capital was urgently needed for investment in the company's own plantations and factories. In 1910 the agricultural engagements of the HVA amounted to *f* 20,600,000 (Helfferich 1914: 123–124, 129–130, 141). In two months' time the import activities of the HVA were liquidated. Its trading products and business relations were transferred to Internatio, taking over the commodity imports, and Geo. Wehry, handling the smaller items such as food and beverages. The company's outstanding credit of *f* 1,500,000 was paid back in full and on time by its Chinese and Arab clients. Contemporaries greatly admired the management of HVA's import activities and characterized it as a well-run and efficient enterprise.[129]

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[127] BI/DJB 1358 Correspondence Surabaya branch office, 5 June 1890: 1.

[128] This episode is dealt with in more detail in Chapter 5, Paragraph 'The HVA and Agricultural Enterprise.

[129] BI/DJB 1507: 31–32, 44, 57–58, 101.

CHAPTER THREE

# CRISIS AND ADAPTATION (1884–1890S)

In 1870 the Cultivation System was officially abolished and private enterprise was allowed to operate more freely. However, tapping the wealth of the Indonesian archipelago proved difficult. The crisis of November 1884 had far reaching consequences for the business world of the Netherlands Indies, and involved some of the largest companies around such as Dorrepaal & Co. Business interests in Amsterdam – together with the NHM and DJB – intervened and prevented a full-fledged collapse of the private economic sector. The threatening credit crunch could only be solved by an overhaul of the customs regarding credit extension which came down to financing long-term investments by incurring short-term debts.

The 1884 crisis exposed the shaky foundations of the private economy. Many firms were forced to adjust their business strategy accordingly. The ties between commerce and capital became better guarded. The completion of this painful reorganization constituted a fundamental reassessment of the relationship between capital, commerce and agricultural enterprise. The crisis also affected the spending power of the indigenous population with great repercussions for the import side of the economy. Chinese and European enterprise with their mutual linkages suffered accordingly. Many Chinese tradesmen defaulted to the detriment of their predominantly European creditors.

## *Economic Policy and Political Expansion*

The post-1870 liberal attitude governing economic policy would constitute the rather loose framework of entrepreneurial conduct until the economic crisis of the 1930s. In a political sense abstention was the official ideology behind Dutch colonial economic policy ever since 1841. Given the limited resources of the Dutch state, the country's colonial possessions were to be confined to Java. Dutch settlements outside of Java – the so-called Outer Islands – were considered undesirable with costs

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outweighing the gains. Still, upon closer inspection a process of territorial expansion characterized the nineteenth century.[1]

Dutch expansion in the Indonesian archipelago proceeded in several phases.[2] After the conclusion of the Java War (1825–1830), which left Dutch authority over the island undisputed, territorial ambitions slowly turned outward. The initial phase of expansion lasted until the early 1870s and saw Dutch presence extended to West Sumatra, Bali, Lombok, Makassar (South Sulawesi), the Minahasa (North Sulawesi), South Kalimantan, Deli (East Sumatra) and the island of Belitung (see Map 1). At this point, commercial policy prevailed over political authority and expensive military intervention remained limited. Dutch private capital became involved in the Outer Islands during the 1850s and 1860s upon receiving concessions for mining and estate agriculture from local rulers which were subsequently endorsed by the colonial authorities.

The second phase lasted from 1873 until 1896 and started with the outbreak of the Aceh War in North Sumatra (Bossenbroek 2001; Van 't Veer 1969). Dutch colonial expansion became more determined, but overt military aggression did not extend much beyond Aceh. Expansion generally took the form of enforcing authority over territories that were claimed but not yet effectively controlled. Local economic and political interests frequently coincided to initiate (reluctant) colonial expansion (Fasseur 1979). Government economic policy fluctuated between restraint and intervention. Concessions, for instance, were authorized but could also be held up for years. Partly because the government could not guarantee the safety of men and property on remote sites, and partly because it anticipated a more expensive local administrative apparatus once a concession was granted. The exploitation of the Outer Islands' natural resources by private capital remained sluggish during this period which contrasted sharply with the situation in Java where private enterprise became feverishly active.

With the escalation of the Aceh War in 1896 the third and final phase of Dutch colonial expansion commenced. The deployment of massive

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[1] The history of Dutch imperialism in the Indonesian archipelago has been the subject of several studies. The most important are à Campo (1992, 2002), Kuitenbrouwer (1985), Lindblad (1986, 1989a) and Locher-Scholten (1994a, 1994b). See for a concise overview of the debates concerning Dutch imperialism Lindblad's contribution in Dick et al. 2002: 109–110.

[2] The *Historical Atlas of Indonesia* by Cribb (2000) is an invaluable guide to the piecemeal process of Dutch territorial expansion. See especially Chapter 4, Paragraph 'Conquest and Annexation'.

military resources and full-scale warfare lasted throughout the first decade of the twentieth century, by which time the Indonesian archipelago had been subjugated to Dutch rule.[3] Only the western half of the island of New Guinea was spared colonial rule until the 1920s. Alongside the colonial administrators private European investors finally made their presence felt. The beginning of the twentieth century saw a massive influx of foreign direct investment into the Outer Islands (Dick et al. 2002: 93–106; Lindblad 1989c; Ricklefs 2001: 171–189).

The period under consideration here (coinciding with the second phase of territorial expansion) saw little evidence of growing economic activity in the Outer Islands.[4] Certainly not comparable to the situation in Java. Towards the end of the nineteenth century private investment in the Netherlands Indies stood at approximately 750 million guilders of which the overwhelming majority (at least 75%) was invested in Java (Dick et al. 2002: 97; Furnivall 1944: 312; Kuitenbrouwer and Schijf 1998: 63–65). The political and economic centre of Java was far better equipped to reward new business initiatives. The island boasted a good infrastructure, a sufficient labour force accustomed to market production, as well as an experienced administrative system without pressing security concerns. The necessary means of communication and transport were either in place or being rapidly developed. The existence of roads, waterways, telegraph lines, shipping services, storage facilities etc. contributed to a favourable investment climate. Equally important was the presence of banks, insurance companies and trading companies.

Tapping relevant sources of expertise and support required considerable skills in social conduct and networking talent as the 'Western' business elite was small in number and closely-knit.[5] The apex of the

[3] Military conquest came at a price. Between 1875 and 1905 *f* 1504 million (33% of colonial expenditure) was spent on army and navy. The Aceh War (1874–1901) cost about *f* 300 million (Diehl 1993: 197–198).

[4] The establishment of the Deli Maatschappij in East Sumatra in 1869 is the proverbial exception to the rule. The organization of this tobacco estate emphasized large-scale production allowing for rationalization of processing and distribution and lower overhead costs, while setting a standard for consistent high quality. The company was an example of successful capital investment in the Outer Islands and ultimately launched a spectacular economic expansion of the region (Dick et al. 2002: 103; Thee Kian Wie 1977).

[5] Exact figures are not available, but an indication is provided by Taselaar. Focusing on Dutch business interests, he discerns an elite of 143 persons divided over 129 families during the first half of the twentieth century. A distinction is made between a 'core' of 29 persons, who constituted the focal point of a network and the rest (Taselaar 1998: 49–57, 92–97). Bossenbroek distinguishes a 'core elite' of 31 persons in the Netherlands in 1900 (Bossenbroek 1996: 87–90). The 'Western' business elite of Java was probably of

commercial world of Java in the nineteenth century consisted of an elite of well-to-do businessmen, who knew (of) each other and whose background (family, friends, acquaintances) provided (a sense of) security. This colonial business elite overlapped to a considerable degree with the business elite of the Netherlands and was well connected with political circles in both The Hague and Batavia. Merchants, bankers and brokers from Amsterdam figured prominently in this arena, although businessmen from The Hague and the Netherlands Indies also played their part (Bossenbroek 1996: 87, 113–114; Kuitenbrouwer and Schijf 1998: 82).

The relatively small (export) basis of the colony's economy made its business elite highly interconnected (Bossenbroek 1996: 87–89; Taselaar 1998: 49–57, 92–98). The NHM was the frontrunner in this respect. At the beginning of the twentieth century NHM's president C.J.K. van Aalst occupied eleven official positions at companies such as shipping lines and machine manufacturers. In addition, each of NHM's Directors performed similar functions at enterprises (Taselaar 1998: 58–62). DJB's network is also interesting. In 1902 the bank's six Directors held thirteen chairs in twelve different boards, either as executive or as supervising director. DJB was thus officially connected to five agricultural enterprises, three sugar factories, one bank as well as a cement, a mining and an insurance company (Kuitenbrouwer and Schijf 1998: 70–71).[6]

### *The Organization of Trade*

Profit prospects made traders increasingly reckless in the years preceding the financial collapse of 1884. World market conditions after 1870 were good and there was a strong demand for products from the Indonesian archipelago. Producing for the world market required working capital which was eagerly supplied by financial and trading firms. All over Java money poured in, accelerating the monetization of the economy and its concomitant demand for imports. These imports were supplied by wholesale traders, but could not be paid for by the retailers immediately. An intricate credit system, caused by the time lag between purchase and sale,

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equal size. The analysis by Bosma and Raben of the planter's elite in Central Java in the nineteenth century seems to confirm this (Bosma and Raben 2003: 109–142, 250–261). See also Knight (1999 and 2006) for information related to Java's sugar industry.

[6] Taselaar provides many more examples of this phenomenon by discerning several clusters of companies grouped around a single enterprise (Taselaar 1998: 31–98, especially 57–92, 94–95).

developed. According to Furnivall, it was conducted along the most risky lines (Furnivall 1939: 197; Van Laanen 1990: 254–255).

The inherent dangers were not completely overlooked. J. Hudig Dzn., Director of the Koloniale Bank (KB) and former employee of the NHM, is a good example of someone unable to change the course of events, although fully aware of the potential dangers.[7] The KB started its activities in Java in 1881 and soon conducted business on a large scale. Despite warnings from the Commissioners and Directors Calkoen and Hudig in the Netherlands KB's head office in the colony quickly committed the bank for large sums. Frequently, the management in Amsterdam could only accept certain deeds as a *fait accompli*.[8] Before the KB officially started its operations on Java, the bank's commitments amounted to *f* 518,000 in June 1881, rising to *f* 3,299,000 in June 1882, and reaching *f* 5,997,000 in June 1883. On the eve of the crisis, the KB had already 'spent' about one million more than its total initial capital of *f* 5,000,000.

On 30 September 1884 capital outlays in agricultural enterprises alone totalled *f* 8,377,000. Sugar (*f* 5,712,000) and coffee (*f* 1,621,000) accounting for 87,5% of the amount. These loans were advanced using the forthcoming harvests as collateral. Most planters could not operate unless they had sufficient working capital at their disposal. These so-called consignment-contracts were universally used for that purpose (Djie Ting Ham 1926: 27–28; Potting 1997: 32, 65–66). Extending credit on these terms meant that the loan applicant agreed to give the products in consignment to the capital provider. The provider earned the right to sell the harvest of the debtor, receiving at least a 3% commission. This kind of contract was usually concluded for five years.[9]

Hudig became aware of the fact that the contracts were used to furnish working capital, but also to finance the establishment of new factories, or pay off other debts. In a commissioner meeting on 15 May 1882, he proposed lowering the interest rate of the bank from 7,5% to 6%. He wanted to make the KB more interesting for financially sound companies in need of working-capital only, but not willing to pay such high interest. In his opinion companies needing more funds for additional purposes were oblivious to high interest rates, as long as they managed to get the money.

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[7] NA/KB 883: 17–18, 68, 73.

[8] In general, long communication lines and the independent position of company representatives in the colony were an often heard-off complaint and could cause serious problems.

[9] For the stipulations of a consignment contract, see Djie ting Ham (1926: 28).

They would bet their cards on a good harvest and high market prices, enabling them to pay back the loan.

Hudig claimed that any decline in revenue from rents would be offset by an increase in commissions. If agreed the KB would confine itself to providing working capital only. Commissioners Fellinger and Hintzen, however, disagreed. They considered the extension of large sums part of the bank's business and were against a change in policy. Hudig had to back down although future events would prove him right.

Like Hudig, DJB was aware of the dangerous financing practices of the time. The situation had seemed to change for the better with the new legislation of 1870. However, the new laws still curtailed the possibilities for Europeans to own land. The only viable option was to operate on the basis of a long-term lease. This was a significant improvement since Europeans had only been allowed to rent land for short periods of up to twenty years. However, real estate could be mortgaged, a practice widely used in the provisioning of capital. Land falling under long-lease arrangements could not, because there was a time limit on the use of it. DJB therefore underwrote the principle of only mortgaging land in ownership. Its example was followed by other financial institutions in the colony.

The resulting effect was one of expanding agrarian business with expanding credit needs that failed to correspond with existing credit facilities. The kind of money required proved to a considerable drain to the moneylenders' resources (be it trading company or bank). They dreaded having too much of their capital tied up, and put a rather short time-limit on any outstanding loan. Long-term commitments were thus accommodated by short-term loans to be repaid within months. Inevitably, loans had to be prolonged and/or renewed, leading to an ever increasing accumulation of debtors, creditors, and guarantors (De Bree 1928–1930: II116–119).

Immediately after the laws of 1870, DJB's Board of Directors decided not to allow advancements in agricultural enterprise. This decision did not work out the way as planned. DJB preferred to lend money on quickly disposable goods: so-called *beleeningen*. Other kinds of security – in essence anything judged too difficult to market – ought to be rejected. Nevertheless, DJB did not want to lose important clients. In the end, the agencies were advised to focus on traders' credit only, but it was left to their discretion to choose other secure possibilities (De Bree 1928–1930: II 121, 123).

In 1878, this led to an internal conflict between the Board of Directors and the Board of Commissioners of DJB (Van Zwet 2004: 159–160, 162, 169).

Commissioners strongly objected to the extension of working capital to sugar factories on the basis of mortgage and equity capital. The dispute could not be solved amicably and both parties turned to the government, who decided in favour of the commissioners. De Bree – dwelling on the timing of this conflict – discerns a possible conflict of interest in this matter (De Bree 1928–1930: II 123–133). Arguably, C.P. Lohr Jr., who had been appointed commissioner in 1877, was the driving-force behind the protest. At the time, he was president of the Factorij in Batavia, the head office of the NHM in Asia and one of the principal competitors of DJB.

Although we could accuse Lohr of looking for an opportunity to obstruct the business operations of a competitor, there is an alternative explanation. In the period 1875–1879, the NHM incurred losses on its involvement in agricultural enterprise. Its profitability suffered and gave rise to dissatisfaction among shareholders. In 1879, the earlier mentioned Hudig was tasked to reduce the interests of the NHM in agriculture. After thorough inspection he started a clean-up of badly yielding business. In 1883, NHM investment in agriculture stood at *f* 6 to *f* 7 million, down from *f* 11 to *f* 13 million in 1879 (Mansvelt 1924: II 404–405, 408, 415). It is therefore possible that Lohr operated in the best interest of DJB, having intimate knowledge of the NHM's vicissitudes. Regardless of Lohr's motivations, DJB would from now on steer a conservative credit course.

Only those who did not participate in any way with the financing of agricultural enterprise, could retain a truly independent position. This held true for the *Nederlandsch-Indische Escompto Maatschappij* (NIEM), the only Dutch bank in the Netherlands Indies, that confined itself to deposit banking (Djie Ting Ham 1926: 60). The same philosophy was adhered to by the English banks operating in the Indonesian archipelago: the Chartered Bank and the Hongkong and Shanghai Banking Corporation (HSBC).

### *Credit and Agriculture*

Bankers and traders could respond to the credit needs of agricultural enterprise by providing long-term or short-term credit. After the crisis of 1884 this demarcation was much better understood. The *Cultuurbanken* (Agricultural Banks) came to focus exclusively on long-term commitments. The general banks strengthened their ties with the traders while keeping a lively interest in agricultural business on a short-term basis only. Such a clear distinction did not exist before the crisis (Helfferich 1914; Djie Ting Ham 1926: 26–38).

Before 1884 advances were preferably given to enterprises deemed capable of repaying their debts within a short time. Consequently, attention focused on enterprises growing one-year crops like sugar and tobacco. In the case of crops that needed longer to harvest (e.g. coffee or tea) risks were evidently bigger. The duration of the contract was longer, a period in which more could go wrong. Pros and cons had to be weighed before entering into such a deal. This required more expertise and more monitoring once the contract was closed. Access to information in order to gain security was of great importance in this respect.

The consignment contract was the financial instrument used to cover short-term loans. The terms stipulated in this kind of contract strongly favoured the creditor. His risk was minimized by gaining the right to dispose of the product after the harvest. In addition, he sometimes demanded control over management and administration of the enterprise. Further security was obtained by mortgaging the buildings and the land (or its long-lease arrangement) and by acquiring the right to harvest the crops. Last, a consignment contract was always concluded for an extended period (usually five years). The creditor was entitled to cancel at any given time, whereas the debtor was only allowed to do so after a stipulated period of time, or otherwise obliged to pay a fine.

A solid company in need of a relatively small amount of cash for wages or transport would not accept such terms. Another popular source of short-term capital was the use of bills of exchange (Gimbrère 1924: 50–56). In essence this constitutes an agreement between buyer and seller, whereby the buyer usually requests the signature of a guarantor. A bill of exchange reduces the buyer's risk, since a third party agrees to act as warrantor by accepting it. In so doing it greatly enhanced business trust, and contributed to the further development of commerce.

The use of bills of exchange signals the growing distance – both geographically and mentally – between the parties participating in the market. After all, when parties know each other and their solidity, they will trust each other enough to place and carry out orders without the backing of a third party (Gimbrère 1924: 7–9). The reliance on a third party only shifts the problem. People still have to ascertain the reliability and trustworthiness of one of the parties involved. If the financial soundness of the third party was known to depend heavily on future market price fluctuations or upcoming harvest results, the signature is subject to grave doubts and therefore worth less. Of course, there was always collateral in the form of the harvest or mortgaged buildings. But despite these provisions the element of risk remained. Harvest sales were uncertain, because of

unexpected market price movements and the commission accruing to the moneylender remained uncertain. Rents from mortgages were fixed, but less attractive since property sales in case of default were more difficult to realize. Therefore, only 50% of the assessed value of property could be lent (De Bree 1928–1930: II 124).

What happened in the Netherlands Indies between 1870 and 1884 came down to a wrongful use of the credit facility described here.[10] Agricultural enterprise offered the signature of its own head office as guarantor. These bills of exchange were known as 'pig on pork' paper. If the loan could not be paid, it was taken over and paid out by the holding-company (i.e. head office) itself. In other words, the request for credit was backed by a participant whose financial capabilities were at least partly reliant on the results of the enterprise that took the loan in the first place. In itself, this did not have to constitute a problem as long as this enterprise formed only a small part of the assets of the much larger holding-company. But if a significant percentage of enterprises belonging to the same holding-company all financed themselves in the same way the dangers were imminent. As soon as prices fell, plantations and factories could not break even. The mountain of debt came to rest on the head office, whose assets were tied to the price fall. With prices at an unprecedented low turnover shrank to such a level that even the costs of production could hardly be met. Remittances from the colony then successively declined. Upon maturity of the loans – usually after six months – the head office had to default, causing the system to collapse.

*Credit and Trade*

Financing trade was conducted on slightly different grounds. A distinction has to be made between the financing of export, import and local trade. The export trade has attracted most attention in the literature. Import and local trade can be considered neglected subjects. The elusiveness of local trade – at least in the eyes of the 'Western' trading sector – has certainly contributed to that effect.

Export traders bought their merchandise either straight from the producer or from intermediate traders. Often an advance was needed for production to take place. The money involved was furnished by the traders out of their own means, or by way of a bank in which case the

[10] See Van Laanen (1990: 254–256), Djie Ting Ham (1926: 4–5, 29), De Bree (1928–1930: II 124, 128), Van den Berg (1907: 202).

merchandise served as a guarantee. This kind of credit was called *beleeningscrediet*, i.e. loans on security. It was the most important way for an exporter to satisfy his need for cash (Djie Ting Ham 1926: 30–33). The procedure started with the exporter requesting the agent of a bank to grant him a loan. In return, he offered security by temporarily handing over the ownership of certain goods. These were stored in godowns and placed in the bank's custody. In case of payment problems the goods were at the bank's disposal.

In general DJB demanded a surplus value; i.e. the estimated value of the products should always be higher than the loan furnished. How much higher was determined by such factors as the reputation of the debtor and the characteristics of the pledged products. Products in high demand that were not perishable did not require such a high surplus when compared to products with the opposite characteristics. The rate of interest was usually pegged against the interest rate of DJB for products with comparable characteristics, albeit one or more percentage points higher.

The direct financing of commodity trade by providing credit on merchandise and/or securities required great caution with regard to the percentages advanced and the quality of the security. Since the price movement of tropical export produce was unpredictable, the surplus value demanded by DJB tended to be high. This affected the bank's competitive strength which was based upon low interest rates.[11] Potential clients however not only considered the amount of interest they had to pay, but also valued the percentage advanced. Since other banks were more lenient in this respect DJB experienced significant competition in export trade finance (Van Laanen 1980: 34–35).

*Beleeningscrediet* was used above all by Chinese exporters and to a lesser extent by small European traders. The big European traders had large liquid assets which accounts for the fact that companies like Internatio, Jacobson/Van den Berg, or Geo. Wehry did not feature as debtors in the books of DJB. They rarely required a loan on security in which case they would usually turn to DJB, whose interest rates for loans on export products (e.g. sugar, or rice) were consistently among the lowest. DJB, however, could afford to be selective and only granted loans on strict conditions in an attempt to minimize risks. In the case of Chinese clients, DJB insisted on extra collateral by requesting them to mortgage real estate. As a result many did not qualify for loans and were turned down by the

[11] See also Chapter 5, Paragraph 'Trading and Banking'.

agents of DJB. They had to take their business elsewhere and frequently ended up at the doorstep of the NIEM, whose management was more inclined to speculative arrangements. This made the NIEM quite popular among the less solid enterprises. At the end of the 1880s the NIEM came to be known as a *noodhaven* (emergency harbour) for the less solid business enterprises. To be fair, it might be better to describe the NIEM as adventurous since its results in the period 1857–1902 were excellent, judged by the dividends paid out (Djie Ting Ham 1926: 60–61, 64).

The import trade was subdivided into different sections through which the distribution of the goods took place. Wholesale trade was primarily undertaken by European importers. At least until the First World War when they practically monopolized the import of products. A partial explanation for this can be found in the fact that the trading links with Europe remained strong during this period, while direct trade with China and Japan was marginal. In 1874 64% of total imports in the Netherlands Indies derived from Europe. In 1910 imports from Europe stood at 52% against 1% from Japan. In 1909 imports from China constituted less than 5% of total imports in the colony (Booth 1998: 211; Van der Putten 2001: 21–22; Post 1991: 18–20).

The actual distribution in the colony was undertaken by the intermediate trade or 'second hand', monopolized to great extent by Chinese traders who passed the products on to the 'third hand' and from there to the 'fourth hand'. Like the exporters, the wholesale import trade had to rely on credit to conduct its business. The loan on security also served to satisfy the need for cash in the import trade (Djie Ting Ham 1926: 34–36). However, the security principle was more difficult to uphold for the creditors. The import firms were advanced considerable sums with their commodities as collateral. These remained in the debtor's custody in order to sell. The sale of goods took place while stocks were being replenished with new imports (partly serving as collateral as well). The resulting fluctuations of stock made it extremely difficult for the creditor to be sure of the value of his collateral.

Extending credit on these terms implied a high degree of trust in the reliability of the applicant. Potential irregularities were difficult to prevent and to ascertain. As a result, the interest rate on import loans was higher than on export loans. The nature of import products also contributed to this outcome. The composition of imports was more diverse and consisted of products more difficult to value than those of export products.

A good example is the disagreement between the Board of Directors of DJB and its agent in Surabaya in April 1884 concerning *beleeningen* on

imported goods.[12] At the end of March 1884 the agent in Surabaya had agreed to credit transactions with l.J. Brandon & Co. (one hundred barrels of flour), J.W. van den Brink & Co. (paper, playing cards, eau de cologne, knifes, sardines, scissors, etc) and the Maatschappij 'de Volharding' (ironware). According to the Directors DJB policy had always been not to commit to this kind of security since it was too difficult to market profitably. Therefore they failed to understand how the Surabaya agent had come to conclude these deals on such basis. A telegram was sent asking for an explanation.

Three weeks later, the Board of Directors was given a report drawn up by DJB's President N.P. van den Berg.[13] It was read with great interest and discussed in the early afternoon of 26 April 1884. Van den Berg admitted that a number of products were not desirable as security and would have been refused under normal circumstances. However, he pointed out that these goods constituted only a tiny portion of total security offered. Better marketable stock had been sought and found, but would have entailed additional costs since these commodities were stored elsewhere and would have had to be moved. He added that most of the questionable goods were already sold and would be delivered upon payment. Additional security was provided by the appointment of a *bewaarder* (keeper) instructed to supervise the goods in his custody.[14] He was required to keep an inventory with an exact specification of the stored items and could only release them after payment of the loan and upon written authorization from the agent of DJB. In the end, the loans were approved except for Maatschappij 'de Volharding' whose goods were not safeguarded properly. The agent was instructed not to prolong this particular loan and advised to make sure that some of the other articles did not serve as security too long.

Wholesale traders had to give advances to the 'second hand' in order to guarantee the sale of their products. They were given promissory notes (IOU's) in return promising to pay a certain sum of money within a certain time. As long as the intermediary trader managed to find an outlet for

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[12] BI/DJB 52 No. 1: 2.

[13] BI/DJB 52 No. 4: 13, 18–21, 24.

[14] A description of the function of *bewaarder* (keeper) can be found in Vleming (1926: 149). The job required little education with daily activities confined to the counting and recounting of stocks. The results were written in inventory lists which had to be regularly submitted to the bank. Employment as *bewaarder* seems to have been poorly paid, while earning little status in colonial society. This kind of administrative work was often done by those belonging to the lower strata of society, e.g. Indo-Europeans, or people that had come down in the world. See for an example of the duties and performance of one unfortunate *bewaarder* the paragraph 'Sing Liong & Co.' below.

his goods, the promissory notes could be considered liquid and he would be able to pay back within the stipulated period. When no sales had taken place once the expiry date had arrived, there was only one thing left to do: to prolong the loan by replacing the old promissory note by a new one. In essence, the distribution trade depended completely on the credit extended by the wholesale importers. The latter had to have considerable means, or they would not be able to give advances to their clients, while keeping a large stock to supply these same clients.

Although this generally held true, the amounts involved were so large that many wholesale importers frequently experienced the need for cash when their own assets were tied up in stocks and advances. To get out of this situation, they would offer promissory notes in their possession to the bank as security for a short-term loan. In the earlier mentioned case of the questionable security Van den Berg stated:

> The countless defaults among the intermediate traders are making many an importer hesitant to dispose of his goods, and rather than giving his goods against promissory notes and discounting these at the bank, they retain these for themselves, and try to acquire as many funds [i.e. *cash*] as needed by pledging the goods at the bank themselves. In the given circumstances, it is advisable from our point of view to facilitate these kinds of operations, in so far this can be done properly considering our own security [...].[15]

By accepting promissory notes, bankers took over the burden of financing the intermediate trade from the wholesaler. This had important consequences. Not only the reliability of the importer had to be considered, but also that of the distributor, whose IOU was waved by the former in the banker's face. Van den Berg's assessment of the situation in Surabaya shows that the wholesale importers doubted the liquidity of the promissory notes given by their customers. They were not prepared to risk tying up their assets and being unable to pay their own bills, because of the banks' refusal to honour any IOU's in their possession.

Since the distributor was often a Chinese, the banks wanted to be well informed about the situation in the so-called *Chineesche Kamp* (Chinese quarter). Who was backing whom? What other businesses were these Chinese in? Did they have contacts with other banks? Therefore the banks checked the soundness and liquidity of the offered promissory notes thoroughly. To reduce risks, surplus value was insisted upon. Small debtors received only 60–70% of the promissory note, while bigger clients could

[15] BI/DJB 52 No. 4: 19.

get 80–90%. The banks would also spread the risks by refusing loans when promissory notes carried the same signature.

Last but not least, there was the question of the contract's running time. The fierce competition between the import houses for a share of the market took place at the price level of the products, but also by giving clients larger advancements and granting them longer terms of payment (Fromberg 1926: 619, 623–625, 627; Alting Mees 1884). The banks tried to oppose this tendency by favouring short terms of payment. On their instigation, the terms of payment that used to run for 4–6 months were slowly reduced to periods of 1–3 months during the last quarter of the nineteenth century. This process, however, saw frequent setbacks owing to the competition among European firms which could lead to a temporary relaxation of credit terms in order to sell their stocks (Gimbrère 1924: 62; Jonker 1996: 115).[16]

### *The Onset of the Crisis: Sugar and Coffee*

In 1884 bankers, traders and planters never suspected that the foundation on which their business rested was so fragile. It took a crisis of unknown proportions to expose the tangle of existing capital arrangements. The crisis provoked a thorough clean-up and unravelling of the existing ties and resulted in more accountable ways of conducting business. This left the export/import business better equipped to withstand the many convulsions associated with the dynamic world of commerce.

The economic crisis of 1884 has gone by different names. Two characterizations most commonly encountered are 'Banking Crisis' or 'Sugar Crisis'.[17] Regardless of the labels attached to it, it was a sudden and extremely violent shock to the commercial establishment of those days. Evidence of its impact can be found in the repeated references to the

[16] The same trend occurred in Singapore. In the 1820s credit was extended for two months only, but this period had gradually become three months and eventually six months. In order to put a check on fraudulent practices in the credit system, the Singapore Chamber of Commerce decreed in 1852 that none of its members should grant credit for longer than three months. After several high-profile bankruptcies ascribed to the indiscriminate granting of credit to Chinese merchants, the Singapore Chamber of Commerce would urge its members in 1864 to further reduce the term of credit from three to two months (Wong Lin Ken 1960: 165–166). See for more details concerning the situation in Singapore Box 2 in Chapter 4.

[17] This crisis was not confined to Java alone, but part of a protracted worldwide decline in agrarian prices between 1880 and 1900. See for the Dutch situation Jacobs and Smits (2001), Van Zanden (1985: 246–252, especially 248), Van Zanden (1987: 52–56).

event, many years after it had been overcome.[18] It came to form part of the collective memory of generations of businessmen.

What triggered this chain of events, and what does it tell us about the fundamentals underlying the commercial world of Java at the time? The key factor initiating the process of default was the sudden fall in the price of sugar. Most primary commodity prices declined in these years, but of the tropical products none was hit as hard as sugar. In 1884 the price dropped by almost 40%, a major blow to sugar producers all over the world.[19] This decline was not an entirely new phenomenon.[20] It had been experienced by sugar traders since the 1860s, but until 1880 it was a relatively marginal phenomenon. Besides, the sugar market was notorious for its price fluctuations.

The downward trend of the sugar price had its roots in the worldwide growing supply of both cane and beet sugar which was strongly encouraged by an ever-increasing demand for sugar (see Table 3.1). For centuries cane sugar had been the only sweetener available for mass production and consumption. Technical progress, however, made the mass production of

Table 3.1. The growth of Java and world sugar production in metric tons (x 1000), 1860–1890.

| | Java | World (cane) | World (beet) |
|---|---|---|---|
| 1860* | 130 (100) | 1376 (100) | 352 (100) |
| 1865 | 142 (109) | 1506 (109) | 681 (193) |
| 1870 | 176 (135) | 1662 (121) | 939 (267) |
| 1875 | 203 (156) | 1816 (132) | 1377 (391) |
| 1880 | 221 (170) | 1883 (137) | 1857 (528) |
| 1885 | 387 (298) | 2300 (167) | 2172 (617) |
| 1890 | 423 (325) | 2597 (189) | 3680 (1045) |

* 1860 = 100

Sources: Creutzberg (1975: 63–76, 141–143), Leidelmeijer (1997: 39–42, 324–326).

[18] Countless memorial volumes testify to this assertion. To name but a few: De Bree (1928–1930: II 232–262), Mansvelt (1924: II 415–418), [Internatio] (1913: 14–19); [Internatio] (1938: 19–22), Colenbrander & Stokvis (1916–1917: I 144–147).

[19] Albert and Graves (1984: 1–2). For a graphic representation of the fall of the sugar price, see their volume (Figure 1.1 and 1.2 on p.2).

[20] This section is partly based on the dissertation of Bakker (1989: 44–51). See for a brief introduction also Albert and Graves (1984: 1–9).

beet sugar in Europe a viable option from the 1860s.[21] In 1870 the worldwide production of cane sugar was still about twice that of its competitor. But in 1883 the production of the two kinds of sugar were virtually on a par. After 1888 the production of beet sugar kept growing at a faster pace than its tropical variant. Nonetheless, cane sugar production in the period 1860–1890 displayed quite a remarkable growth, considering that the industry was far more mature (Claver 1995: 15–16, 55).

The production increase on Java was realized first of all by establishing new sugar factories. Between 1882 and 1884 18 new sugar factories were established (De Bree 1928–1930: II 232; Rush 1990: 179). Second, the threatening competition of beet sugar stimulated the planters to improve the profitability of their enterprises. Around 1860 they started to enlarge and modernize their plantations and factories. Consequently, output expanded and by 1882 the production of the Java sugar industry had more than doubled compared to 1870 (Tio Poo Tjiang 1923: 20). In 1884, total production of Java sugar amounted to 6,493,000 *picols*,[22] an increase of over 75% when compared to 1876 when total volume stood at 3,700,000 *picols* (De Bree 1928–1930: II 232).

The growing supply of sugar had a downward effect on the price. This encouraged producers to put even more sugar on the market. It was the only way of making a profitable return on their investments. Since producers could not influence the market price individually, every supplier had to conform to price movements on a huge, anonymous world market. (See Table 3.2 for an indication of the relative position of Java sugar.) But sugar production remained profitable. Before 1884 participation in the industry seemed a sure bet. The sugar manufacturer's cost price lay at *f* 10 per *picol*, whereas even the lower quality sugars were bought by the trading companies for *f* 12,75 to *f* 13 per *picol.* (De Bree 1928–1930: II 232). With profit margins of 25–30% it is hardly surprising that the expansion of output was on everyone's mind.

It was not until 1880 that people began to feel uncomfortable with the sugar market. Even experts could only guess the rationale behind the continuing fluctuations. Sugar traders such as Rueb & Co. in Rotterdam admitted to this frankly. When reviewing the sugar market of 1883 they wrote that all statements predicting deficiencies in the harvests had been totally unfounded. Never before had world production been so large.

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[21] The historical development of beet sugar production in Europe, and more specifically the Netherlands, in relation to the production of cane sugar is described in Claver (1995: 16–23).

[22] 1 *picol* = 61,76 kilo (Van Schendel 2000: 110).

Table 3.2. The share of Java sugar in world production, 1860–1890.

| | Java* | World* (cane) | % | World* (cane + beet) | % |
|---|---|---|---|---|---|
| 1860 | 130 | 1376 | 9 | 1728 | 8 |
| 1865 | 142 | 1506 | 9 | 2187 | 6 |
| 1870 | 176 | 1662 | 11 | 2601 | 7 |
| 1875 | 203 | 1816 | 11 | 3193 | 6 |
| 1880 | 221 | 1883 | 12 | 3740 | 6 |
| 1885 | 387 | 2300 | 17 | 4472 | 9 |
| 1890 | 423 | 2597 | 16 | 6277 | 7 |

* in metric tons (x 1000)
Sources: Creutzberg (1975: 63–76, 141–143), Leidelmeijer (1997: 39–42, 324–326).

> The logic behind all this exaggeration? To tell the truth, we don't understand a bit of it![23]

They concluded by lamenting that all the mistrust had only caused prices to fall to the lowest level in many years.

The standard quality[24] of Java sugar, which touched *f* 19 per *picol* in 1877, dropped to *f* 15 per *picol* in 1883 (Furnivall 1939: 196; Tio Poo Tjiang 1923: 20; De Bree 1928–1930: II 232). This drop coincided with the moment that the world production of beet and cane sugar had reached equal size. Whether this knowledge constituted a psychological turning point is uncertain. Whatever the cause, buyers and suppliers reacted without restraint and tried to get rid of their stock, resulting in an unprecedented and dramatic fall in price (Bakker 1989: 50–51). In January 1884 the price had dropped to *f* 13 per *picol* and fell to *f* 11 in July. During the harvest of 1884 the price of Java sugar kept falling to *f* 8 per *picol* (Furnivall 1939: 196; Tio Poo Tjiang 1923: 20; De Bree 1928–1930: II 232–233). In relative terms the price of sugar in that year fell by 23% in Batavia and nearly 29% in London. These percentages are the best indicators for the seriousness of the crisis, especially since London had become the most important market for Java sugar after the Sugar Act of 1870 and would remain so until the 1890s (Korthals Altes 1994: 17, 79, 93).

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[23] Cited in Bakker (1989: 50). See also Van den Berg (1907: 208, Note 1).

[24] The price of sugar depended upon the level of purity. In 1839 the NHM devised a method of rating 18 kinds of sugar by colour of which 1 represented the 'standard' quality (Mansvelt 1924: II 167–168).

Judging from events in other sugar markets such as Amsterdam, Antwerp and Paris, the collapse was a shared phenomenon. Remarkable since the Paris and Antwerp sugar market were virtually closed for foreign sugar, because of significant import duties. The London and Amsterdam sugar market did not impose any kind of protection. The effect of crises could therefore be felt immediately. Nevertheless, there was not much difference in price movements in the respective markets.[25] The sudden fall in prices was so marked that it threatened a total breakdown of the whole economic system in Java (Furnivall 1939: 196). Sugar was the most important export commodity of colonial Indonesia and its domination of Java's estate economy meant that the impact of the crisis became widespread.

Sugar had only recently overtaken coffee as the major export earner.[26] However, coffee remained of great importance for the economy and it was not until the 1890s that the struggle for first place as the country's prime export earner was decisively won by sugar (Brown 1997: 21; Korthals Altes 1994: 79). Coffee underwent its own crisis in the years immediately preceding 1884. From the late 1870s the coffee leaf disease seriously damaged Java's coffee plantations. Harvests were minimized or completely obliterated and production had fallen.[27] In addition coffee cultivation became even less profitable after the price of coffee started to slide from 1877 onwards, culminating in a major price fall in 1881/82. Between 1877 and 1883 the price of coffee fell from *f* 60 to *f* 30–35 per *picol*.[28]

Together coffee and sugar were of immense importance for the economic prosperity of Java.[29] Huge sums were invested in cultivation and trade involving ever bigger and usually interconnected interests. An increasing number of people, all reckoning to be rich within years, scrambled for a piece of this pie.[30] Everyone seemed to profit. Despite wavering

[25] Bakker (1989: 46, 51).

[26] The figures below show the share in export earnings of the largest commodity (Booth 1998: 208).

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 1825 | 67.7% | coffee | 1870 | 40.2% | coffee | 1900 | 28.6% | sugar | 1940 | 37.7% rubber |
| 1850 | 36.1% | coffee | 1885 | 45.4% | sugar | 1925 | 32.6% | rubber | | |

[27] This can be illustrated by the example of the two coffee plantations 'Mangan Ardjo' en 'Mangan Simo' in Central Java, owned by A.J. Boers. In 1883, these two coffee lands produced 3,804 *picols* of coffee against 313 *picols* in 1884 (BI/DJB 52 No. 92: 493).

[28] See Furnivall (1939: 196), Ricklefs (2001: 162), Korthals Altes (1994: 17), De Bree (1928–1930: II 232).

[29] See Bulbeck et al. (1998: Chapters 4 and 5) for the importance of coffee and sugar in Southeast Asia.

[30] This was not altogether improbable. When discussing the position of DJB debtors in Surabaya in July 1871, the following was said about J.H. Fuchter, a notary of profession with

commodity prices, the early 1880s were prosperous years for Java. In the wake of the Agrarian Law of 1870, which opened Java to private exploitation, commercial agriculture continued to expand.

Coffee and sugar can be considered true exponents of the agrarian export economy. These and other export commodities had brought the government of the Netherlands Indies huge revenues. Revenues that were largely remitted to the mother-country. The economic development and resulting great wealth of the Netherlands were for a substantial part founded on the efficient exploitation of – above all – Java's resources (Van Baardewijk 1993; Fasseur 1975: 20–21, 37–42, 118–128, 200–205). At the same time, the dependence on a few agrarian exports set the stage for problems that started in the beginning of 1884 and unfolded from the middle of September.

### *Beginning of the Crisis*

What events finally tipped the scale and plunged the commercial world of Java into a prolonged crisis? At the beginning of 1884 optimism still reigned, but with a depressed sugar market and with the sugar price at an all-time low (according to Rueb & Co.) it did not take much to shake confidence. In February 1884 – with the sugar price down to *f* 12 – sugar traders C. Bahre & G. Kinder went bankrupt. They had been in the import/export business since 1848 and were among the bigger traders. Their downfall caused quite a stir.[31] DJB-President N.P. van den Berg discussed the situation on 21 February 1884 and drew the attention to the difficult position of another renowned firm, Martin Dyce & Co. in Surabaya. This company too was in the sugar trade and had advanced substantial sums for that purpose. N.P. van den Berg anticipated big losses considering the current market conditions.[32] And so it did, because on 29 February 1884 the headquarters of Martin Dyce & Co. in Glasgow sent the following telegram to its agent MacColl:

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substantial interests in the cultivation of sugar: "Probably J.H. Fuchter will become a man of fortune in due time, but for the moment everything still has to be paid out of the sugar" (BI/DJB 39 No. 76: 64).

[31] Bahre & Kinder were also active as shipping and insurance agents and had acquired a good business reputation. In the late 1850s and 1860s members of this German firm were listed as (honorary) consul for Denmark and several of the German states (Saxony, Bremen, Oldenburg) (Merrillees 2000: 60–61).

[32] BI/DJB 51 No. 48: 200–201.

> Have suspended payment balance books at all branches 29 February. Give preference to nobody. Suspend operations until you hear from us. Must hand over nothing [...].

The next month Martin Dyce & Co. declared itself bankrupt.[33] Like Bahre & Kinder, it had been in the import/export business for years (at least since the 1860s). With the collapse of these companies, business confidence – aggravated by the persisting downfall of commodity prices in general and sugar prices in particular – started to melt away.[34]

Worried about the unfolding situation DJB concluded that a careful review of the bank's engagements in Central Java and East Java was called for.[35] Letters with instructions and requests for additional information were sent. In April 1884 N.P. van den Berg left Batavia for Semarang and Surabaya. This visit formed part of the regular inspection of the branch offices of DJB as a means of monitoring its agents. However, Van den Berg also assessed the position of the sugar business in this part of Java. His findings were not encouraging. He encountered a very depressed mood among sugar manufacturers and traders. Regardless of the price there was hardly any inclination to trade and people doubted whether the trading companies could purchase all the available sugar, estimated by N.P. van den Berg at five million *picols*.

In other words, the purchasing power of the export sector was judged to be insufficient. Traditionally, each sugar enterprise sold the bulk of their production to exporters in Java (Korthals Altes 1994: 79).[36] This system was maintained until 1917 when a sharp price fall led producers to set up an association – the Vereenigde Javasuiker Producenten (VJSP) – in order to prevent prices from sliding again. It seems there was no such response during the crisis of 1884. However, we learn from Van den Berg's account that two so-called sugar unions (*suikerbonden*) had been established in Central Java in 1884. According to Van den Berg, the sugar manufacturers had become convinced that they themselves had to find buyers abroad. For this purpose they combined under the guidance of experienced trading enterprises: i.e. Dorrepaal & Co. and Internatio.

The agreement between Internatio and various producers shows how the sugar industry tried to provide for security.[37] Under the arrangement

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[33] BI/DJB 51 No. 50: 208; BI/DJB 51 No. 52: 232.

[34] See Mansvelt (1938: Appendices 2 and 3).

[35] The following paragraphs are partly based on a report submitted by N.P. van den Berg on 26 April 1884 (BI/DJB 52, No. 4: 15–27).

[36] See also BI/DJB 52 No. 4: 25.

[37] BI/DJB 52 No. 4: 25–27.

the participants' sugar was pooled in order to be sold by a common sales department under the 'right' conditions. To enable the planters to continue their business, Internatio would advance money to the participants upon each delivery which left the sugar in possession of the company. The sales department was run by Internatio. The planters' interests were safeguarded by the establishment of a committee of three that would take care of day-to-day affairs and convene alternately in Surabaya and Semarang. It was specified that a representative of the producers would be seated in the committee. In case of disagreement his decision would settle the matter. The inspection of the sugar – in order to determine its value – would be done objectively by assigning an independent inspector to perform this task. If need be, the planters' representative was allowed to act as such. The planters could appoint a representative in Rotterdam to consult with Internatio's Directors about sales policy.

It should be kept in mind that this cooperation was forced upon the participants because of exceptional economic circumstances. Normally, the interests of traders and planters tended to clash, above all concerning the value of the delivered sugar. It was the buyer/exporter who decided how much he was willing to pay for the sugar and he himself carried out the inspection. According to the planters their sugar was consistently undervalued. Arbitration was possible, but this meant turning to the trader association (Handelsvereeniging) in which the big sugar exporters occupied a dominant position. When in 1883 the sugar price steadily declined, sugar traders tried to hedge against a further price fall by severely 'cutting' the value of the marketed sugar. In September 1883, manufacturers complained that the price of the same quality of sugar was now *f* 1,5 to *f* 2 less than the year before.[38]

Although hopes were high, the proposed sugar union did not succeed. Too many actors in the business were left outside and no influence could be exercised on market prices. Even a completely unified Java sugar industry would have had a weak position vis-à-vis the world market with only 6% tot 9% of total world sugar production in the period 1880–1885 (see Table 3.2). In August 1884 another big player in the field started to tumble and suspended payments. Erdmann & Sielcken, active in Java's commercial trade since 1875, managed to resume trading operations after reaching an agreement with its creditors. By paying 20% of outstanding debts the firm was given complete discharge from liability. A modest new capital

[38] NA/KB 883: 42–43.

investment of *f* 100,000 enabled the company to make a successful restart (Schmiedell 1924).

In early November 1884 Dümmler & Co. threw in the towel as well. This bankruptcy seems to have been the final confirmation that any rescue attempt for the industry was doomed to fail. Dümmler & Co. had been in business at least since 1843. Its involvement in sugar dated back many years and it was counted among the three most important sugar exporters in Surabaya.[39] Like any other trading firm, Dümmler & Co. had borrowed heavily in order to secure the delivery of sugar from the producers.

The assets of both traders and planters were relatively small compared to the huge sums necessary to harvest, manufacture and market the sugar. To provide the necessary working-capital (*werkkapitaal*) of the planters advances were made, to be repaid when the sugar was finally sold. The time lag between the extension of the loan and the final repayment was therefore considerable. Dümmler & Co. had sought to overcome this problem by asking the banks for credit. This was common practice and the Nederlandsch-Indische Handelsbank (NIHB) was among those that had agreed to Dümmler & Co's request for capital. With Dümmler & Co. bankrupt, the extended loan of *f* 400,000 could not be redeemed and had to be written off. In a normal situation, NIHB's capital reserves would have sufficed to absorb this write-off. But times were far from normal.

The NIHB needed the support of DJB from late June 1884 when its agent Van Heukelom admitted to a temporary shortage of liquid assets because of the sugar crisis. A credit of *f* 1,500,000 was given on the personal recommendation of N.P. van den Berg. An additional credit of *f* 600,000 was given in September 1884. Desperate for funds the NIHB tried to strengthen its position by raising a debenture loan of *f* 2,954,000. Less than *f* 500,000 was subscribed to, and the attempt failed (De Bree 1928–1930: II 235).[40] By now, unrest became widespread. Trust in the stability of even the biggest institutions in the Netherlands Indies started to wane. When the KB ran into similar problems at the end of October 1884, the NHM turned down its request for help. On 1 November 1884 KB-agent Lohr informed N.P. van den Berg of the extremely serious situation. Within days head office in Amsterdam would have to default unless DJB agreed to operate as 'lender

[39] NA/KB 883: 42–43; BI/DJB 39 No. 66: 9–10; Mansvelt (1938: Appendices 2 and 3).
[40] See also BI/DJB 52 No. 47: 172.

of last resort'. Director Hudig of the KB, a personal friend of N.P. van den Berg, was confident that DJB would help out. In his own words:

> President Mr. N.P. van den Berg is extremely well-disposed towards us and will be glad to collaborate.[41]

Lengthy deliberations among the Directors of DJB commenced. The KB was in effect bankrupt. Its assets were tied up and could not be made liquid on short notice. Acquiring additional funds by means of a debenture loan was the only option, but permission could only be granted in a shareholders' meeting. Such a meeting could be convened, at the earliest, at the beginning of December.

On 5 November 1884 DJB agreed to provide a credit of *f* 200,000, but only after its demands for extra security were met satisfactorily. DJB recognized that the fate of the KB and possibly of numerous other 'houses' rested on a favourable decision. It was obvious that the downfall of the KB would create a panic which could trigger a series of bankruptcies.[42] The loan of *f* 200,000 postponed the inevitable by only a couple of days. Director Hudig of the KB had calculated that *f* 1,500,000 was needed to cover short-term debt and an additional *f* 3,000,000 to provide working capital for the agricultural enterprises administered by KB. Given the extremely low prices for sugar and coffee, the current deficit would amount to at least *f* 1,000,000. On 11 November 1884 the KB applied for suspension of payment which was granted on 14 November 1884. By now, the crisis had become full-fledged.[43]

The most striking aspect of the Sugar crisis of 1884 is its omnipresence. It pervaded every corner of the commercial world of Java. This demonstrates the myriad connections between bankers, traders and planters and above all the great interdependence of these connections. Because of this interdependence the 'system' could grow to such proportions and hold out for so long. At the same time it was also the main cause of its spectacular collapse. What constituted the core of this so-called system, was the craving for (working)capital and the endemic shortage of it. An exogenous factor – one that could not be influenced – contributed to its demise. The price fall of key commodities, especially sugar and coffee, signalled the end of a period of transition.

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41 NA/KB 883: 76.
42 BI/DJB 52 No. 48: 176–180.
43 NA/KB 883: 76–79.

## *The Crisis Experienced: Internatio and Dorrepaal & Co.*

The experience of 1884 will be illustrated by the vicissitudes of Internatio and the trading company Dorrepaal & Co. Internatio fared relatively well during the crisis and managed to reorganize itself. Dorrepaal & Co. was one of the most interesting though least known Indies trading firms. The archive of the company seems not to have survived. Fortunately, material regarding this eminent trading firm could be retrieved in secondary sources, because of its standing, huge scale of activities and spectacular downfall in the 1880s.

### *Internatio*

How did Internatio fare during the upheaval of the mid-1880s? The company did not survive its first twenty years' of existence without a scratch. In the two memorial volumes published in commemoration of Internatio's 50th and 75th birthday the crisis of 1884 – though decades ago – still figured prominently ([Internatio] 1913: 14–24; [Internatio] 1938: 19–29). The problematic twenty-year period before 1884 was depicted as a learning process which the company had to go through, and in which trial and error were viewed as natural companions. The events of 1884 were considered a turning point for Internatio.

Internatio was first and foremost a general trading-company. In the early years of its existence Internatio was involved in almost every sector of the Netherlands Indies economy (Sipos 1992: 5). It took part in banking, had an interest in agriculture and industrial production and represented different shipping and insurance companies. Trade however came to form the backbone of the company, not least because of the experience of 1884 and its aftermath. Initially, the import of textiles from the Netherlands constituted Internatio's core business in the Netherlands Indies. The founding of the company was driven by textile producers operating from Twente in the east of the Netherlands. But soon the company started to import other products and ventured into the export business. This inevitably led to engagements in agricultural enterprise.

This agricultural involvement can be deduced from Table 3.3. On the even of the crisis Internatio had committed itself for *f* 7,900,000 and entered into relations with 55 enterprises. These commitments consisted mainly of consignments contracts. From the start Internatio's management had tried to refrain from outright ownership of agricultural enterprises. Internatio's business was conducted as much as possible on the

basis of consignment. Trading for own account was only done to secure more consignment contracts, following the losses incurred in the first years of its existence. The company's trading activities were not allowed to run any risk since depreciations had to be booked on Internatio's agricultural undertakings time and again. Turnover generated by commission was therefore the most important source of income for Internatio at least until the First World War (Sipos 1992: 13).

This kind of risk-minimizing practice was a common feature in the Netherlands Indies. It has been estimated that before 1914 approximately 95% of all imports into the colony were consignment shippings and only 5% was imported by traders for own account.[44] When a trading company acted as a broker, it was the producer who took the risk of non-payment after delivery. The trader's mediation was naturally rewarded with a commission which was a negotiated percentage of the price. If the producer did not wish, or could not afford to run this kind of risk, he could request the trader to ensure payment of the products after the client had received them. Acceptance of this additional task earned the trader an extra commission.[45]

The fact that producers were willing to accept the conditions of consignment stemmed from certain advantages (Sipos 1992: 10–11). First, it allowed the producer to export to regions of which he had no intimate knowledge. Second, if the intermediary on the spot worked for several producers sales costs could be split and consequently lowered; i.e. cost reduction through management of scale. Third, by closing these contracts the broker received a regular assortment of different goods geared towards a regular clientele which contributed to a levelling of fluctuations in turnover. Fourth, the broker would improve his ability to assess the growth possibilities of interesting markets and the trustworthiness of participants operating there. Last, since sales and the concomitant price level were determined after arrival, import duties could only be levied on the cost price of the shipped goods. This contributed to a better profit margin.

The major disadvantage of this system from the producer's point of view was the fact that he needed to maintain stock both at home and

[44] See the article 'Het nieuwe beeld van den Indische importhandel' published in *De Indische Gids* (*IG*) 45 2 (1923) 898–900. Although not explicitly stated, the author presumably referred to the period 1870–1914.

[45] Such commission payments showed up in the financial accounts of trading companies under the heading *delcredere* (Sipos 1992: 10).

abroad. This curtailment of cash-flow was exacerbated by the fact that payment upon delivery was not feasible. The resulting time period could be bridged only with the help of (bank) credit (Alting Mees 1884: 46). With all this capital tied up – parts of it in places thousands of miles away – he would be anxious to exert some kind of control. Access to good and reliable information was of key importance in this respect and producers would go to great length in achieving this. An example of the efforts companies undertook to safeguard their interests in the colony is provided by the Dutch textile firm H.P. Gelderman & Zonen just before 1880 (Simons & Tophoven 1994: 46, 52–53). The frequent and detailed correspondence with textile importers shows how information was obtained, processed and dealt with for the purpose of minimizing risk.

In other words, access to information was an important and necessary precondition for this Dutch enterprise to establish security. A goal achieved by granting only a few import firms in the Netherlands Indies the right to sell the products of H.P. Gelderman & Zonen on condition that they would refrain from deals with other textile manufacturers. H.P. Gelderman & Zonen also participated financially in the Surabaya trading company Harmsen, Zorn & Co. to obtain an exclusive production outlet as well as an important source of information (Fischer, Van Gerwen and Winkelman 1991: 98–112). With their importers not trading textiles of competitors H.P. Gelderman & Zonen could provide information regarding its products without fearing that someone was eavesdropping.

The establishment of Internatio in 1863 fits this pattern of security enhancement. In this case two textile firms, G. & H. Salomonson and Van Heek & Co. opted for active participation in trade. Like H.P. Gelderman & Zonen both were in search of a more secure outlet for their products in the colony after experiencing disappointing results with other firms for lack of specialized expertise in the textile trade. Internatio indeed started operating as their sole intermediary, primarily on a consignment basis. The broadly defined goals of the company, however, left enough room to take part in the export of agricultural products. This required substantial advances. Internatio rapidly became involved in the financing of agricultural enterprise and eagerly participated in the prevailing credit system.

In 1868, right after the dismissal of C.S. van Heekeren as chief agent, Internatio was committed to 23 enterprises (up from thirteen) for a total amount of *f* 620,000. In 1873 the number of enterprises (22) had not significantly altered, but total capital outlays had more than doubled to *f* 1,300,000. By 1878 spectacular growth had set in and Internatio was committed to no less than sixty enterprises with capital advancements

reaching *f* 3,300,000.[46] DJB started to get worried and in May 1879 Internatio's chief agent, W. Suermondt, was summoned to provide information on the state of affairs.[47] Suermondt acknowledged that 1878 had been a rather bad year for Internatio. Product sales of the 1877 harvest had not been satisfying and the remaining stock would burden the 1878 balance sheet. The Surabaya agency, unfortunately, had had to write off a loss of *f* 110,000 due to the bankruptcy of various Chinese clients and the other agencies had suffered losses as well. Suermondt assured DJB that these losses were covered by earnings from interest and commission payments. He also emphasized the special reserve of *f* 300,000 to prevent a crisis in case of a liquidity shortage. The announcement that Internatio was able to furnish all its agricultural advances out of its own means carried most weight. DJB's Board of Directors accepted Suermondt's explanation since Internatio kept its credit facilities under the same conditions.

Internatio's strength was based on a policy of maintaining a degree of liquidity. Management in Rotterdam, often in conflict with its representatives on Java, kept emphasizing the prudence of financial room for manoeuvre. Tying up all assets in agricultural export produce was deemed irresponsible. In 1867, the Directors stated:

> We have – and will in the future continue to give priority to the repayment of advances which were earlier provided to strengthen initial capital, and were consequently tied up for considerable time. For no matter how small the attached risks, and no matter how significant the stipulated interest and commission on the other hand may be, a trading institution [...] should have a substantial amount of its capital available which is not feasible as long as such significant funds are tied up in agricultural enterprises.[48]

Strict adherence to this sensible line of conduct proved difficult.[49] Youthful enthusiasm in the newly founded company, the independent position of its agents and a generally optimistic outlook on the future economic prospects of Java resulted in a drive to obtain a portion of the commission trade. The advancement of working capital became endemic. Additional capital often had to be supplied in order to make sure that the planter could at least harvest and deliver the product. This extension of credit – essentially rescue operations – did not go unnoticed, but retreating would incur considerable costs. In its first years of existence, Internatio

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[46] Archive Internatio Doc. 22: 6, 11.
[47] BI/DJB 47 Nr. 8: 130–132.
[48] *Jaarverslag Internatio 1867* (1868) 17.
[49] Archive Internatio Doc. 22: 3–12.

was not prepared to start writing off debts on a considerable scale. Instead, it occasionally took over defaulting clients and operated their enterprises themselves in order to save at least a part of the outstanding claims. We should also keep in mind that the Rotterdam management guidelines were not always followed by its representatives on the spot. The means of communication between the Netherlands and Java were poor and the connection between directors and agents quite loose. This put the agents in an independent position and sometimes presented the head office with a *fait accompli*.

In 1866 Internatio came into possession of the sugar factory 'Ketanen' in Central Java after its owner could no longer meet his obligations. Since no one could be interested Internatio felt obliged to buy it in an attempt to prevent the loss of its claim. At the time it already owned a tobacco plantation and had a 50% stake in another one. By 1870 these accounts were finally dissolved and off the balance sheet. Management stated:

> Although, according to the messages of the chief agent, the accounts of most enterprises mentioned earlier may be considered satisfactory, and consequently these businesses can be regarded a reasonably sure source of fixed revenues, we have not failed to state repeatedly that the operations of the 'Vereeniging' should not be extended in this direction and the sale of the sugar factory and the abolishment of the tobacco-interests will lead to an important improvement in this respect.[50]

In spite of lip-service paid to a cautious policy of operating on the agricultural export market, Internatio's commitment in this field slowly expanded. In 1882 the company advanced money to 73 agricultural enterprises for a total amount of *f* 7,300,000. In addition Internatio had *f* 820,000 invested in companies it operated itself. Given a total capital of *f* 5,000,000 and reserves of *f* 750,000, Internatio's resources were severely stretched. In recognition of this, and encouraged by the coffee leaf disease sweeping through Java, coffee interests were scaled down from 36 in 1882 to 20 in 1884. Nevertheless, during the entire period 1871–1884 management was in two minds about the course to follow. A.C. Mees would write in 1938:

> It all looked very fine; but there was a catch, and – seen in the light of later years – it would have been much better to pay out less [i.e. *dividend*] and ensure a more cautious valuation of many assets and debt accounts of cultural enterprises on the one hand, and generate much more powerful reserves on the other.[51]

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[50] *Jaarverslag Internatio 1870* (1871) 8.
[51] See [Internatio] (1938: 18).

Internatio was hit hard when prices plummeted, although it was able to withstand the storm better than others. Internatio's position in November 1884 showed reasonable prospects. Still, public trust started to dwindle judged by the declining stock market value of Internatio. On 24 April 1884, after paying out a 6% dividend over 1883, Internatio's shares reached a quotation of 118%. On 1 July share prices had dropped to 115%, reaching parity on 14 October. This trend was reinforced after the outbreak of the crisis and on 27 November shares had dropped to 80%. On 8 December 1884 shares stood at 68%. The lowest point was reached in 1886 when the share price touched bottom with a quotation of 60% ([Internatio] 1913: 17).[52]

The public's distrust of Internatio's ability to survive seems unjustified, but it lacked the information to make a correct judgement. Internatio tried to convince those in doubt that there was no threat of a collapse. On 11 November 1884 it published and circulated a leaflet warning against exaggerated concerns. The 'Vereeniging' was financially sound and run with prudence. Regarding its commitments with cultural enterprises the management pointed out that at the end of 1884 total reserves would have risen to *f* 1,750,000.[53]

On 25 November 1884 agent Suermondt in Batavia received a telegram from Rotterdam informing him of the increasing distrust. He was advised to make sure that the agencies' liquidity was as high as possible. The same day he received another, more optimistic, message which read that he did not have to worry about payments in Europe and that a debenture loan seemed possible. In early December he was reassured that no remittances to Rotterdam were called for, and that he could use all available financial means in the colony itself. Suermondt did not have to take measures. He had *f* 1,100,000 of liquid assets at disposal, against goods worth *f* 475,000 to be paid upon delivery.[54] Head office in Rotterdam nonetheless decided that additional capital was urgently needed and went ahead with plans for a debenture loan of *f* 2,500,000. Suermondt told DJB on 8 December that the loan had been successful. Participants included the NHM for *f* 250,000, the Rotterdamsche Bank for *f* 200,000 and a consortium of four Rotterdam bankers for *f* 850,000.[55]

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52 BI/DJB 52 No. 62: 280.
53 See Appendix 5 in [Internatio] (1938).
54 BI/DJB 52 No. 62: 280–281.
55 BI/DJB 52 No. 65: 290.

Internatio now faced the daunting task of removing accumulated bad debt. The choice was between a drastic depreciation that would slash capital outlays, or a slow reorganization that would take years. The latter option was chosen as a result of which complete recovery would take until 1905 ([Internatio] 1913: 17–24; [Internatio] 1938: 26–29; Sipos 1992: 7).[56] For years Internatio was in a "liquidation process" which absorbed most profits. At the same time a more professional structure was established. Up-to-date information from experts in the field of agriculture and engineering had shown itself to be of great value. Advisors were appointed, cultivation methods were improved and cost prices were brought down. Financial planning and cost management became important tools to guard investments.[57]

Choosing a slow pace of reorganizing had one major disadvantage. In the first years after the crisis, many kept doubting Internatio's stability.[58] In July 1886 the agents of DJB in Semarang and Surabaya were instructed to restrict Internatio's credit to a maximum period of thirty days. An exceptionally short time since normal agreements stipulated expiry dates of 60–90 days. DJB acted on the basis of the latest annual report of Internatio for the year 1885 which showed a tied-up capital of several million guilders.[59] A credit restriction ordained by DJB could have wide-ranging repercussions since it curtailed the firm's operating capacities, thereby damaging its reputation and undermining its trustworthiness. A response from Internatio's agent in Batavia was necessary.

When notified of DJB's decision Suermondt tried to refute the basis upon which the decision rested.[60] In a report he attempted to downplay the extent of Internatio's problems. However, he could only admit to the fact that too much capital was tied up. In his own words:

> I totally agree with you [i.e. N.P. van den Berg], that we have much too much capital immobilized in agricultural undertakings; we did not reach this

[56] Archive Internatio Doc. 22: 13–14.

[57] Ultimately Internatio's agricultural activities would be managed by the *Centrale Cultuurafdeling*, founded in Semarang in 1920. Many advisors were employed: agricultural and mechanical engineers for the cultivation of sugar and the so-called *Bergcultures* (cultivations on higher altitudes such as rubber, tea, and coffee), a chemical engineer as well as an administrative and financial consultant (Archive Internatio Doc. 22: 8–9, 13–14, 36–37).

[58] Its stock market value, as an indicator for the amount of trust people put in Internatio, has already been mentioned. Until 1886 Internatio's shares were not in demand and traded at the stock market for bottom prices.

[59] BI/DJB 54 No. 16: 141–143.

[60] BI/DJB 54 No. 24: 178–187.

> point through indifference or ignorance, but through circumstances, which we were not able to change [...].[61]

According to him, these circumstances came down to bad harvests, the spreading coffee leaf disease which accounted for part of the bad harvest and the unprecedented price fall of sugar. He continued by saying:

> It does not help to dwell on this; much more practical is the question, whether people have faith in our policy and energy, our ability to return to a healthy situation, and with respect to this, I believe to be able to point to an improved situation, in which we can take comfort.[62]

However, emphasizing a reduction of total immobilized capital by *f* 508,427 did not impress DJB since it amounted to a relative decrease of a mere 5%. Total capital tied up in agricultural enterprises at the end of 1885 stood at *f* 9,248,876. Suffice it to say that DJB did not feel inclined to change its decision. Internatio was in for a rough ride.

Although Internatio scaled down its activities in export agriculture in order to liquidate bad debt, it did not abandon its participation in this economic sector. The number of contracts with agricultural enterprises never dropped below fifty in the years before 1900. The amount of capital committed to them decreased, albeit at a slow pace. In 1900 total engagements of Internatio in agriculture amounted to *f* 4,460,000. A reduction of capital outlays over a period of fifteen years to only half.[63] The backbone of the company was in trading, but opportunities in agriculture remained too important to neglect. In the case of the HVA this would ultimately result in a complete focus on agricultural business (i.e. sugar) in 1910. The import and export business was abandoned and Internatio took over many of its clients, profiting especially from the acquisition of a highly developed distribution system.[64]

In 1884 this outcome could hardly have been predicted. Founded in 1879 the HVA was still a small player in the field. As noted the HVA had contacts with seven agricultural enterprises. Total commitments comprised *f* 1,150,000 which was quite unimpressive when compared to others (see Table 3.3). The HVA did not suffer immediate losses due to the crisis. In December 1884 its agent Benjamin even requested a loan from DJB to furnish working capital for three sugar factories.[65] According to him these

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[61] Ibidem, 181.
[62] Ibidem.
[63] Archive Internatio Doc. 22: 17.
[64] See Chapter 5, Paragraph 'The HVA and Agricultural Enterprise'.
[65] BI/DJB 52 No. 66: 293–294.

Table 3.3. Financial institutions and agricultural enterprises, 1884.

| | Enterprises | | | | Engagements |
|---|---|---|---|---|---|
| | sugar | coffee | others | total | (*f*) |
| Dorrepaal & Co. | 22 | 38 | 53 | 113 | 13,125,000 |
| HVA | 4 | 2 | 1 | 7 | 1,150,000 |
| Internatio | 12 | 20 | 23 | 55 | 7,900,000 |
| Koloniale Bank | 9 | 17 | 12 | 38 | 7,700,000 |
| NHM | 30 | 12 | 5 | 47 | 6,900,000 |
| NIHB | 29 | 20 | 4 | 53 | 22,500,000 |

Sources: Archive Internatio Doc. 22: 11; BI/DJB 52 No. 92: 483–516; BI/DJB 54 No. 24: 182; Furnivall (1939: 197); Helfferich (1914: 39, 140–141).

factories were excellent, working cheaply and completely free of debt. He would very much like to include them among his clients, but lacked sufficient funds. A strange request, considering the fact that as late as 27 December 1884 the agent of the KB would write to his management:

> Importers are not selling anything, are not receiving any money; machine factories are not getting any orders; employees of factories are being dismissed, etc. Banks are not discounting paper [i.e. bills of exchange] from importers anymore.[66]

N.P. van den Berg, after hearing Benjamin, did not even bother to consult the other Directors but refused his request downright, adding that this was not the time to invest capital in agriculture and that they needed their funds to support their import business. He was proven right. In May 1885 the HVA had to write out a debenture loan of *f* 1,500,000. Eventually, the money was raised but only with difficulty (Helfferich 1914: 123).[67]

*Dorrepaal & Co.*

At the onset of the crisis Dorrepaal & Co. conducted business with 113 companies. The company's total outstanding credit amounted to *f* 13,125,000 (See Table 3.3). Among its clientele were 22 sugar factories and 38 coffee plantations. Dorrepaal & Co's fortunes were highly correlated with a continuation of the bull market for agricultural export products. After the market collapse of 1884 Dorrepaal & Co. put up a desperate fight

[66] NA/KB 883: 71.
[67] NA/KB 883: 97.

for survival to no avail. After a prolonged battle one of the most renowned trading companies in Java disappeared from the scene. Its strongly personalized structure, seemingly well-suited to survive any kind of strain, proved outdated and necessitated a restart in a different and greatly reduced format. Its founder, G.L. Dorrepaal, would never know about the collapse of his life's work. He died shortly before the outbreak of the crisis.

On 4 May 1883 Georgius Leonardus Dorrepaal passed away in The Hague, where he had retired after living for many decades in Java. Born in 1816 in the Netherlands, he arrived in the colony in 1840 and settled in Semarang. He associated himself with A.E. Soesman who had started his own trading business in 1835.[68] From approximately 1841/42 onwards Soesman & Dorrepaal provided working capital to agricultural enterprises located mainly in the Principalities (De Bree 1928–1930: II 412).[69] Around 1843 Dorrepaal established his own company under the name Dorrepaal & Co.[70] One year later he married Ludovica Manuel (1817–1896) daughter of the deceased owner of 'Peterongan', a huge private estate near Semarang. How he financed his business activities remains unclear. He might have received Chinese financial support, either from Chinese moneylenders in Semarang, or possibly through the mediation of his brother-in-law C.H. Manuel who lived on 'Peterongan' together with a Chinese woman (Bosma and Raben 2003: 122–124).

Little is known about the early activities of Dorrepaal & Co. Until 1850 the company remained quite small and was certainly not counted among the big and influential names in the trading business in Semarang. The firm was active in import and export on a rather humble scale. In the years before 1850, Dorrepaal and Co. registered as exporter only once.[71] Between 1851 and 1863, it chartered nine ships for the export of goods to the Netherlands. The import share of the company's business seems to have been considerably less. During the same period only one ship was chartered to bring in goods from the Netherlands.[72] This is no surprise, considering the later development of Dorrepaal & Co. and its early commitment

[68] See Appendix 1 in Mansvelt (1938).
[69] NA/KB 883: 94.
[70] Ibidem.
[71] See Appendix 3 in Mansvelt (1938). Up till then, it was common practice to charter a ship for its complete tonnage. The names of the companies that commissioned those ships showed up in the trade statistics. When export traders started to charter ships for joint account, the possibility of identifying the respective participants gradually disappeared. Single companies kept chartering ships, but these data do not give a complete picture of their trading activities (Mansvelt 1938: 8–9).
[72] See Appendices 2 and 3 in Mansvelt (1938).

to agricultural enterprises primarily geared to export. The company slowly consolidated its position and concentrated on the abundant business opportunities in Central Java (including the Principalities).[73] It improved its standing and reputation considerably and its wishes and needs were increasingly noted. Early 1860s Dorrepaal & Co. had 'arrived'. Less than a decade later, G.L. Dorrepaal's position among planters and traders was absolutely unrivalled; he had become the undisputed 'king' of Central Java.[74]

In the 1870s some important changes occurred. After approximately forty years in the trading business G.L. Dorrepaal decided to withdraw in favour of C.L. Dankmeyer and his son-in-law W.L. Mirandolle. However, his stake in the company was still by far the greatest.[75] In 1878 the firm's total capital amounted to *f* 2,540,000 furnished by seven partners. G.L. Dorrepaal's share was *f* 1,500,000 or 60% of the company. This was a sizeable share which turned out to be even larger, since he had furnished short-term credit of *f* 1,000,000 to be repaid in monthly instalments over the next eight years. Dankmeyer, with a share of *f* 350,000 the second biggest participant, must have been buoyant in his expectations for the future. After all, the company stood at the height of its power. Its position was acknowledged and it wielded considerable influence.[76] Business was running smoothly and was well founded in a sound financial situation with enough room for further development. The general economic outlook was excellent and the company was well prepared to take advantage of this.

Dankmeyer, the company's spokesman, therefore requested DJB in September 1878 to consider establishing a new agency in Yogyakarta.[77] The desirability of an agency in the Principalities (Yogyakarta and Solo/Surakarta) was demonstrated by presenting DJB-President Van den Berg an overview of Dorrepaal & Co's substantial engagements within the Yogyakarta residency. Van den Berg, present in Semarang for a routine inspection of the Java agencies, listened carefully. In 1867 agencies had already been established in Solo and Pasuruan (De Bree 1928–1930: II 579),

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[73] BI/DJB 39 No. 78: 72–76.

[74] For more details on Dorrepaal's status in colonial society, see Bosma and Raben (2003: 125–126).

[75] BI/DJB 46 No. 39: 371.

[76] For example, G.L. Dorrepaal was a commissioner of the Semarang agency of DJB for many years and when in 1879 DJB's new statute was drafted, a representative of Dorrepaal & Co. acted as a consultant.

[77] BI/DJB 46 No. 78: 371–372.

but there might be sufficient reason to review the situation. Upon Dankmeyer's and other people's information Van den Berg decided to extend his visit and travelled through East and Central Java to see for himself. In his final report he wrote that the situation in the Yogyakarta area could be characterized as exceptionally good and that in his view an agency would be of great value (De Bree 1928–1930: II 184). We will never know if the financial needs of Dorrepaal & Co. tipped the balance in favour of a new agency, but the outcome was positive. The decision to establish an agency in Yogyakarta was taken surprisingly fast and on 1 April 1879 DJB opened the doors of its newest agency.

Dorrepaal & Co. seemed to be doing excellent, but concerns were suddenly raised about its financial situation. In December 1878 DJB's Board of Directors contemplated their commitments in Central Java and decided that no more credit should be extended to companies (partially) owned by Dorrepaal & Co. unless the firm was willing to accept short-term bank credits with a maximum of ten days.[78] The agent in Semarang was urged to visit Dorrepaal & Co. and ask to see the books in order to allow a better assessment of its commitments. Evidently, DJB feared an overextension of Dorrepaal & Co's financial strength. However, in September Dankmeyer's answer to Van den Berg's inquiry regarding the financial situation of Dorrepaal & Co. was accepted.

This sudden reversal of attitude towards a well-respected and longtime client was caused by two reasons. First, as we have seen, the end of 1878 saw a crisis within DJB between Directors and Commissioners which steered the bank into a more conservative course (De Bree 1928–1930: II 196–203, 207–220, 224, 228). Second, at the end of November 1878 the agent in Semarang had compiled a list of clients operating in the Principalities.[79] This list must have been extremely alarming. It showed 39 enterprises engaged in agricultural activities (predominantly sugar and coffee, to a lesser extent tobacco and indigo) with the names of their owners, administrators and financial backers. The name of Dorrepaal as financial backer and/or owner appeared 32 times on this list. The Directors worried: how sound were all these commitments? What if Dorrepaal ran into trouble? With such an influential position in the all-important Javanese heartland, the company's default could assume catastrophic proportions.

[78] BI/DJB 46 No. 57: 658–659.
[79] BI/DJB 46 No. 57: 665–672.

The reply from the Semarang agency came two months later and was partly reassuring. Dorrepaal & Co. had fully co-operated in allowing access to its books and the resulting report satisfied the management in Batavia. They had to admit that with business on such a scale the requested and already extended credit was quite moderate. Therefore, a modest expansion of outstanding loans was permissible. However, the negative outcome of the conflict with the Commissioners made the Directors cautious, and the decision was made not to deviate from the earlier reduction of credit facilities.[80]

According to the earlier mentioned list Dorrepaal & Co's activities spread out from its Semarang base in the direction of the Principalities.[81] With Central Java as its main operating field, its scale of business was large. In the eyes of DJB this was alarming, partly because its Semarang agency had come to rely too much on the Dorrepaal & Co. account, and partly because Dorrepaal & Co. could be indebted to other banks as well. This would make its scale of business even bigger, but also more complex and ambiguous. A disturbingly large number of enterprises were connected to each other and to Dorrepaal & Co. Dorrepaal & Co. would act as financial backer, as owner, or both at the same time. In many instances Dorrepaal & Co. had advanced money to enterprises partially owned by G.L. Dorrepaal himself. The same G.L. Dorrepaal who still owned 60% of the company and had provided an additional loan of *f* 1,000,000.

As long as there was no interruption in the company's cash-flow, business continued to run smoothly. Although DJB's sudden credit restriction caused some concern, it could be dealt with because market conditions remained favourable. Dorrepaal & Co's reputation was solid. This Semarang trading company served, in the eyes of many, as a good example of daring entrepreneurial behaviour.

In the eyes of the KB Dorrepaal & Co. also constituted an ideal business partner, whose network of clients and contacts were welcomed to support the KB's fledgling business operations. The KB even contemplated taking over Dorrepaal & Co's business. In 1881 talks were held in Amsterdam with the old patriarch, G.L. Dorrepaal, and an associate of the company, J.H. de Kanter. In September 1881, however, Hudig figured a take-over would probably not succeed. A major obstacle was the company's ownership of planatations. By statute the KB could not possess agricultural enterprises. Splitting up Dorrepaal & Co.'s business interests

[80] BI/DJB 46 No. 76: 815.
[81] BI/DJB 39 No. 76: 62–68.

seemed a way out, but the option was rejected outright by the associates of Dorrepaal & Co. G.L. Dorrepaal himself was at any rate opposed, since a take-over by the KB would mean losing the name Dorrepaal which he found unacceptable. In the end the negotiations faltered. A business relationship was nevertheless established soon afterwards. At the end of February 1882 the KB agreed to a one-year loan of *f* 300,000 which was repeatedly prolonged.[82]

On 30 January 1882 the position of Dorrepaal & Co. was once more under critical review by DJB.[83] The immediate cause was Mirandolle's request for an additional credit of *f* 300,000. DJB had extended this credit for the last three years, although it was considered a temporary measure in order to alleviate minor payment difficulties. Mirandolle's letter to Director A.A. Buijskes was not well received. Acting President Buijskes argued against prolongation of the loan. His reasoning gives a rare insight into the root causes of Dorrepaal & Co.'s accumulating problems acknowledged almost two years before the actual demise of the company.

Buijskes identified a number of problems which would take several years to sort out. First, there was the principal consideration of not using a short-term loan for long-term purposes. Approving the same credit for the fourth time would be tantamount to a continuous credit. Second, if guaranteed sufficiently this did not have to be problematic, but determining the solidity of guarantors remained troublesome. In the case of Dorrepaal & Co. the second consideration was of greater importance. According to Buijskes, the sheer volume of the company's business combined with its diversity complicated matters considerably. In addition, he expressed an acute awareness of:

> [...] the extreme difficulty – indeed – sheer impossibility of acquiring accurate knowledge of the relations between planter and money lender.[84]

Buijskes continued by saying that most of the credit extended by Dorrepaal & Co. was not guaranteed at all and in the case of difficulties would come to bear on the company itself. In other words, there was no safety net. Dorrepaal & Co. had large resources at its disposal, but in case of a calamity it would take months, if not years, to straighten things out. Buijskes' third consideration touched upon the problem of credibility. He claimed that the company's credibility originated from the founder's personal

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82 NA/KB 883: 31–32.
83 BI/DJB 49 No. 49: 330–333.
84 Ibidem: 331.

fortune, and he was of an advanced age. G.L. Dorrepaal could pass away in the foreseeable future, leaving the company without his influence, reputation and money.

Buijskes concluded by pointing out that Dorrepaal & Co. was committed to more than 90 enterprises. These commitments did not consist of uniform contracts. Instead, a bewildering variety of arrangements (debentures, bills of exchange, promissory notes, etc.) had been concluded. In Buijskes words:

> [...] something that – in case of a possible disruption of the regular state of affairs – will give rise to such a chaos of complications, that it will not be possible to work out what will come of it [...].[85]

He therefore strongly urged discontinuing Dorrepaal & Co's credit. With President Van den Berg not present at the time the decision was postponed until further notice.

It would take a month before the matter was taken up again. On 24 February 1882 N.P. van den Berg addressed the issue of Dorrepaal & Co at the weekly meeting of DJB's Board of Directors.[86] Although partly agreeing with Buijskes, he did not share all of his objections. Above all, he found it implausible that the general public would react extremely to G.L. Dorrepaal's death. No such thing had happened when G.L. Dorrepaal resigned in the late 1870s which offered enough reassurance. Besides, provisions had been made to prevent G.L. Dorrepaal's capital from being withdrawn upon his death. This capital would have to stay in the company another eight years, contributing to the stability of Dorrepaal & Co. Buijskes' reaction was one of caution. The general public, far less familiar with the *histoire intime* of the company, would surely adjust its opinion concerning the reliability of Dorrepaal & Co. upon hearing of the death of its founder. As far as he could tell, G.L. Dorrepaal was still highly regarded by the public.

D. Groeneveld – like Buijskes a member of the Board of Directors – opined that Dorrepaal & Co's account with DJB had amounted to *f* 800,000 over the last few years. Including the extraordinary loan the account had more than once risen to *f* 1,200,000. A "colossal amount" according to him that he would not like to see in the books again. Nevertheless, he favoured accommodating Dorrepaal & Co. with the required *f* 300,000 provided that such a request would not be granted again in the future. After this

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[85] Ibidem.
[86] BI/DJB 49 No. 53: 351–353.

was decided DJB's agent in Semarang was authorized to extend credit up to *f* 200,000 immediately.

N.P. van den Berg's favourable standpoint regarding credit extension for trading and agricultural purposes might be contributed to his past working environment. Before accepting the position of President of DJB in 1873, he had been the Chief Agent of the NIHB in Batavia from 1864 onwards. His first hand knowledge with regard to the (financial) needs of private enterprise derived from this position. We can probably date his first encounter with agricultural enterprise as early as 1864. Van den Berg's brother-in-law was Karel Frederik Holle, a famous entrepreneur in the history of the Netherlands Indies. He was a man of many talents. Holle was active as a scholar, educator, admirer of the Sundanese culture, active promoter of new agricultural methods and poetry. He also became famous as a tea planter with his own plantation 'Waspada'. He had been the administrator of another tea plantation 'Tjikarang' since 1858 and achieved fine results with new cultivation methods. However, like everyone else, he needed working capital (Van den Berge 1998).

For this he turned to N.P. van den Berg, who was not only his brother-in-law, but also a good friend (Van den Berge 1998: 30–32). The two men had a close personal relationship and Van den Berg described Holle in one of his letters as one of the noblest men he had ever met. Van den Berg supported Holle's request for an advance wholeheartedly and tried to convince the NIHB of the soundness of his and Holle's plans. Management in Amsterdam was hesitant and sent Van den Berg a letter on 7 June 1864 warning him not to let his judgement be influenced too much by feelings of friendship. Van den Berg persisted and emphasized the increased competition of the NHM. In December 1864 the loan was approved and the consignment contract was signed on 4 January 1865. Holle was in business.

Van den Berg soon found out that the policy of the NIHB had not essentially changed. Its Directors remained reluctant to advance money to agricultural enterprise and were not prepared to sign any more consignment contracts (Korthals Altes 2004: 91; Van Zwet 2004: 114). The risks were considered too great and the rewards too small. Van den Berg's next job at DJB gave him more opportunities to support private enterprise, although DJB was severely restricted in this field of operations.[87] Short-term credit, for the benefit of trade only, with sound and tightly guarded security was the

[87] See the earlier described conflict between Directors and Commissioners of DJB in 1878–1879 on the matter of extending loans to agricultural enterprises.

norm. As seen, exceptions could not be avoided. With Dorrepaal & Co.'s agricultural interests becoming more important, the security it offered became increasingly linked to these same interests. Strict compliance to DJB's statutes would have forestalled such loans, but management closed its eyes and bent the rules somewhat. Van den Berg played an important role here. During his years as President of DJB he was undisputedly in control, although President and Directors got along quite well, and were generally of the same opinion. Disagreements hardly ever occurred. The discussion regarding the extra credit for Dorrepaal & Co. was unparalleled.

In the few years before the eruption of the crisis, Dorrepaal & Co. went about their business as usual. The company did not have to ask for additional funds. Business, however, was conducted on an ever larger scale and the agricultural commitments became vast. Though described as a general import-export firm, Dorrepaal & Co. had become the largest financier of agricultural enterprise in the colony. Its import business had withered away completely and both in absolute and relative terms amounted to almost nothing.[88] At the end of 1884 a financial survey of Dorrepaal & Co showed imported goods worth a total of *f* 850,000. This total included *f* 300,000 worth of goods imported on behalf of the company Van der Linde & Teves. Dorrepaal & Co. – personified by A. Mirandolle – was an associate in this Semarang-based firm. At the time of the crisis of 1884 it had invested *f* 10,000 in the company and was entitled to 25% of its profits. Dorrepaal & Co. had co-founded it on 28 April 1881 in order to provide machinery, materials and other necessities to its many clients in agricultural enterprise.[89] A large and quite expensive stock was maintained at all times to that effect. Another *f* 28,000 was spent to import gunny bags for the transport of agricultural products. In other words, almost 40% of total imports was directly related to Dorrepaal & Co.'s agricultural commitments, leaving a mere *f* 522,000 for the import of other goods (e.g. butter). This was a negligible 3% of total assets, which were conservatively estimated at *f* 17,200,000.

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[88] BI/DJB 52 No. 92: 488, 497, 509.

[89] J.A. van der Linde – who started out in Semarang in 1860 – and J.C. Teves had become partners in 1875 and traded primarily in ironware and utilities for factories and agricultural enterprises. They also traded in general import products, but most of this business was soon abandoned. Upon Van der Linde's death in 1880 the company was restructured the following year. Dorrepaal & Co. furnished part of the starting capital whereupon A. Mirandolle acted as a 'silent partner' (*Gedenkboek Lindeteves –Stokvis* 1939: 1–2; Kind 2000: 11–12).

Dorrepaal & Co.'s agricultural undertakings were of a completely different order. Close study of its balance sheet, made up on 31 December 1882, clearly shows the magnitude of this involvement.[90] Dorrepaal & Co. had advanced more than *f* 12,500,000 of working capital to sugar, coffee, tobacco and indigo enterprises. Of these four products the share of sugar and coffee came close to 90% giving the company an extremely high exposure to world market prices. Total commitment in agriculture exceeded *f* 16,100,000 which was financed in an unorthodox way. The money advanced was guaranteed by, first of all, the different kinds of security planters had offered, like promissory notes and bills of exchange. Second, there was the finished produce that – partly stored, partly shipped – could be used as collateral for cash. This did not cover the obligations completely since it provided a little less than *f* 10,000,000 in liquid assets. This amount was supplemented with *f* 3,700,000 of the company's own capital, i.e. shareholder capital and the private accounts of the associates. This still left a gap of more than *f* 2,400,000 which Dorrepaal & Co. closed by using *f* 2,610,000 of deposits at its disposal. A highly unorthodox and risky solution since this source of liquid assets could be withdrawn at a moment's notice. As long as the company's profile still inspired confidence, withdrawal on such a scale could be prevented. But maintaining trustworthiness is subject to outside influences and cannot be determined solely by the company itself.

The people in charge of Dorrepaal & Co – Dorrepaal and De Kanter in Amsterdam and Dankmeyer and Mirandolle in Semarang – knew the inherent dangers. In 1881 (*f* 979,000), 1882 (*f* 841,000), and 1883 (*f* 192,000) all surplus profits were used to write off debts, or reserved to cushion unexpected misfortune.[91] Considering the whole financial picture, these amounts were small. Besides, Dorrepaal & Co.'s commitments increased in this period. In 1883 and 1884 the company had to take over 4 indigo and coffee enterprises as part of a debt settlement which surfaced on its balance sheet for *f* 755,000.[92] At the same time the profitability of many agricultural enterprises suffered from the strategy of expansion preceding the crisis of 1884.[93] Investing in new machinery (e.g. steam ploughs), buying land and bringing it into cultivation, constructing new water works,

[90] NA/NHM 7939. Around this time Dorrepaal & Co. financed approximately 45% of the total sugar production in the Principalities (Bosma and Raben 2003: 251).

[91] BI/DJB 52 No. 92: 496.

[92] Three of the four enterprises belonged to C.H. Manuel, brother of G.L. Dorrepaal's widow Ludovica Manuel (BI/DJB 52 No. 92: 490; NA/KB 883: 94).

[93] BI/DJB 52 No. 92: 489, 491–494.

building and/or modernizing factories were all extremely expensive which put a heavy burden on the whole sector. Though aware of the overheated economy, Dorrepaal & Co. did not realize how acute the situation really was.

They were not the only ones. Even DJB, who always advocated caution and common sense, was not worried when viewing the information from Dorrepaal & Co. concerning 1883.[94] The company's commitments were covered by the estimated value of the received products. It should be remembered that the yield from any harvest was usually sold over a protracted period of time. When prices were not to the liking of the trader, he would – if he could afford to – sit on it and sell it later. DJB must have known that sales had not been realized yet, or at least had not been realized completely. Nevertheless, President and Directors concluded that Dorrepaal & Co. had performed well during the past year. All this was discussed and decided on 5 May 1884, when prices had begun to slide and the market seemed shaky. If prices collapsed, expenses could no longer be covered by sales, whereas the company's own assets (shareholder capital + the associates' private accounts) accounted for only 30–40% of capital outlays in agricultural enterprise alone.

Dorrepaal & Co.'s high profile instilled confidence until the end. It kept its image of trustworthiness and reliability. In September 1884 the NIHB faced an acute shortage of liquid assets and applied for help at the office of DJB. It was given a short-term credit of *f* 600,000. Interestingly, the required security consisted of coffee (*f* 400,000) and a credit guarantee (*f* 200,000) with the signature of Dorrepaal & Co (De Bree 1928–1930: II 235).

Apparently Dorrepaal's name was still considered good enough to be accepted as a guarantor for *f* 200,000 in case of default. This continued to be the case until the end of November that same year. On 20 November 1884 De Kanter telegraphed Mirandolle in Batavia to inform him of a possible suspension of payment.[95] Mirandolle immediately notified the agent – Dunlop – in Batavia, who informed Van den Berg. At the office of DJB this message was received like a bolt of lightning. No one had expected anything of the kind. Mirandolle's telegram to Dunlop read as followed:

> De Kanter signals me our friends have drawn the Government's attention [*in Holland*] to the great political repercussions, if we have to suspend

[94] BI/DJB 52 No. 6: 30.
[95] Dankmeyer had died in March 1884, leaving Mirandolle in charge of operations.

> especially considering that so many enterprises in Solo and Djocja would be temporarily unable to pay rent and activities would cease with the result that a mass of people would be without earnings; he also advises that this be pointed out to the Indies Government, talk to Mr. van den Berg about this.[96]

Van den Berg was stunned when reading this. Only the day before, the 'Factorij' (NHM's head office in Batavia) had given the "most reassuring messages" concerning Dorrepaal & Co.[97] The fact that associates in Amsterdam had already called in "friends" to put pressure on the government in The Hague was a bad sign. On 21 November he telegraphed Mirandolle in Semarang:

> Dunlop showed me your private telegram of yesterday. As you intended the Governor-General was warned with the utmost seriousness and emphasis of the great political importance of the current situation, yet I doubt very much if our propositions will be accepted. It is even said that the Minister has declared himself by telegram against lending any government support. I will undertake whatever is necessary to promote other views. In the mean time your telegram has alarmed me greatly: I thought matters were handled satisfactorily. Keep me informed: this is desirable in both our interest.[98]

From now on, events happened in quick succession. Mirandolle's answer to Van den Berg's telegram tells us that the most pressing problem for Dorrepaal & Co. concerned the acquisition of sufficient working capital until the next harvest could be brought to the market.[99] Trading agricultural produce was a seasonal business as Dorrepaal & Co.'s estimated budget for 1885 shows. Total expenses for the first six months amounted to *f* 6,153,000. Only *f* 4,370,000 was expected to come in, leaving a deficit of *f* 1,783,000. The second half of the year showed the reversed situation with abundant harvest sales. Total expenses were estimated at *f* 5,940,000, but revenue was conservatively judged to be *f* 7,500,000. This created a surplus of at least *f* 1,560,000, nearly balancing the total over the whole year. And these sales revenues were based upon prices standing at an all-time low; sugar in this budget was priced at *f* 8 per *picol*.[100]

The fluctuation in revenue and expenses required financial help. But, because of the price fall no planter's signature was acceptable anymore and therefore Dorrepaal & Co had to cough up the money itself which led

96 BI/DJB 52 No. 54: 234.
97 Ibidem: 229.
98 Ibidem: 235.
99 BI/DJB 52 No. 55: 236.
100 BI/DJB 52 No. 92 Appendix 1–2: 499–501.

to a lack of cash.[101] The company's assets became tied up amazingly fast. On average, the company had to pay out *f* 8,000 a day (*f* 240,000 a month) consisting of working-capital for planters, wages, and a diverse range of other expenses. An extra *f* 150,000 had to be added for the monthly costs of transport. All this, without counting the payments due on the expiry dates of the many short-term credit facilities which the company used to finance, among others, the expenses just mentioned.[102]

No harm would have been done if the company's nominal capital had been sufficient. However, as shown the company's own means were outstripped about three times by its agricultural commitments alone, a situation which originated from the buoyant economic circumstances of the last few years. With the company's own capital plus short-term deposits now completely tied up, and no chance of further credit, the whole venture came to a creaking halt.[103]

The colonial government was called to the rescue, but stuck to its newly-found principles of *laissez-faire*. There was formidable pressure to do otherwise and N.P. van den Berg was among the staunchest supporters of government intervention (De Bree 1928–1930: II 237–242, 244–248; Van Zwet 2004: 168–171). Together with Lohr of the NHM and Van Delden of the NIHB (both on the Board of Commissioners of DJB) he presented a memorandum to Governor-General Van Rees on 13 November.[104] It contained an overview of the crisis and showed a possible way out. Essentially, the key to the problem was a lack of trust in a profitable return of investment. Risk reduction was therefore urgently required. Van den Berg concluded that the legal opportunities of ceding security ought to be broadened. So far, only harvested produce could serve as security, but what about the crops in the field? If these could be pledged as well, it would leave the planters some room to manoeuvre and reduce risks for potential creditors.[105]

Although the government was not willing to spend one guilder itself, this idea was welcomed. Van Rees put his weight behind this proposition which speeded up the bureaucratic procedures. On 26 November Van den Berg was summoned at the Governor-General's office to advise on the problems pertaining to Dorrepaal & Co. Again he stressed his earlier

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101 BI/DJB 52 No. 54: 229.
102 BI/DJB 52 No. 92 Appendix 1–2: 499–501.
103 Ibidem: 484.
104 BI/DJB 52 No. 51: 207–210.
105 BI/DJB 52 No. 50: 199–203; BI/DJB 52 No. 51: 204–206.

idea, but added that the NHM was the only one in a position to help out in the Principalities. The government could support the NHM's efforts by giving it the right to dispose of the *f* 5,000,000 the company had been obliged to deposit at DNB as a security for its government consignments. On 4 December a new law regarding the possibility of ceding field crops was promulgated. Although the planter lost some of his independence when receiving advances under these conditions, he was assured of a more steady credit supply.

In the meantime, it had become obvious that Dorrepaal & Co. needed to be reconstructed (De Bree 1928–1930: II 247, 249–250).[106] Debts had skyrocketed. The private fortunes of the associates and their family members simply did not suffice. Early December 1884 the decision was taken to convert Dorrepaal & Co. into the Dorrepaalsche Bank der Vorstenlanden[107] with a nominal capital of *f* 5,500,000. Associates and family would do their best to raise this amount up to *f* 6,000,000. At the same time a debenture loan of *f* 7,000,000 was issued. Van den Berg was requested to encourage creditors in the colony to participate in this loan as much as possible.[108] In other words, creditors were asked to agree to a postponement of payment. If agreed upon their deposits would be transformed into debentures, to be repaid over a number of years. Ultimately, 80% of the debentures were taken. Short-term deposit holders had, however, massively resisted forsaking rapid repayment. Over *f* 1,500,000 had to be paid out upon the original expiry dates. Only in Batavia a mere *f* 65,000 had been converted into debentures.[109]

The share, debenture and deposit holders provide a wonderful image of interlocking relationships in the trading and financial world of Java in this period.[110] They were all there: bankers, traders, and planters. All the grand family names such as Arnold, Raaff, Pijnacker Hordijk, d'Abo, etc. Only two Chinese names were listed, but these two count. None other than Ho Yam Loo (an important Semarang revenue farmer) and Oey Tjie Sien (the father of Oei Tiong Ham, who founded the huge commercial empire Kian Gwan) felt obligated to invest in the restructured company. The financial sector was equally well represented. Dorrepaal & Co. had

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106 BI/DJB 52 No. 63: 286; BI/DJB 52 No. 92: 485.

107 On 18 August 1885 the Dorrepaalsche Bank der Vorstenlanden was founded retroactively as of 17 December 1884.

108 The Koloniale Bank (KB) agreed, because Dorrepaal & Co. had participated in its own debenture loan for *f* 644,000. If Dorrepaal should fall, this participation would become worthless.

109 BI/DJB 52 No. 92 Appendix 1, 9–10: 499–500, 572–575.

110 Ibidem.

financial arrangements with all the major banks operating in the colony at the time, i.e. DJB, KB, NHM, NIHB, NIEM, the Chartered Bank, and the Mercantile Bank. Mention should also be made of the Semarangsche Spaarbank, and different insurance companies like the Bataviasche Zee & Brand Assurantie Maatschappij, the Semarangsche Zee & Brand Assurantie Maatschappij and the Assurantie Maatschappij 'de Merapi'. Last, Dorrepaal & Co. had been in contact with a number of trading companies, among others: Kreglinger & Co., Lens & Bergsma, and John Peet & Co.[111]

The debenture loan had not been entirely unsuccessful. The money raised was considerable. The problem was that only *f* 1,500,000 of the available *f* 5,760,000 could be used. The remainder had to be reserved to settle outstanding debt for which expiry dates were not far ahead. Help from the outside remained necessary.[112] DJB and the NHM were addressed and it was decided to investigate the company's books. This task was given to the NHM and on 24 December 1884 a member of the Factorij, Fokker, went to Semarang. DJB decided to request assistance from the government once again, since:

> [...] the only thing left to consider, is to what extent an attempt can be made once more to make an appeal for Government cooperation in preventing a calamity that could have the most disastrous consequences for Central Java, not just with regard to the law and order of the country, but also with regard to the whole of the import trade, because with the suspension of countless enterprises, who were until now assisted with funds by Dorrepaal & Co., the money the 'second hand' traders need to honour their obligations to the importers will fail to materialize, and from this can arise a general failure of the 'Chinese quarter' in Semarang.[113]

As expected, the government did not give in and other possibilities had to be considered. One was to tackle the high transport costs of the harvested

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[111] The NHM-archive contains a somewhat shorter list of important relations showing corresponding names (NA/NHM 2433 No. 391).

[112] Throughout the crisis of 1884 DJB and NHM were consistently called to the rescue. More or less pressured by public opinion as well as government circles, both institutions responded admirably to the challenge (De Bree 1928–1930: II 232–271; Van den Berg 1907: 140–142; Mansvelt 1924: II 416–418). Van den Berg even resorted to 'illegal' measures by extending loans against mortgaged capital which directly contravened DJB's statutes. In his unpublished memoirs he would later write: "[...] I have taken personal responsibility for some extraordinary measures, that would undoubtedly have cost me my position in case things had gone wrong." Van den Berg's efforts were greatly appreciated and made him honorary member of several agricultural associations, such as the Japarasche Vereeniging van Suikerfabrikanten (1885) and the Soekaboemische Landbouwvereeniging (1887) (Van Zwet 2004: 169, 191).

[113] BI/DJB 52 No. 74: 366.

produce from the field to the ports of shipment. Transport was done by rail. In order to lower the freight charges of the railroad companies, these firms were petitioned as well. The freight rate had been a source of complaint, but was now becoming a real burden with cost price exceeding the selling price. This burden is exemplified by Fokker's estimation of Dorrepaal & Co.'s freight charges for the second half of 1885 which amounted to *f* 900,000. When the Nederlandsch-Indische Spoorwegmaatschappij (NIS) decided to lower its rate for sugar transports in 1885, he wrote in his report to expect a reduction of transport costs of *f* 200,000 to *f* 300,000.[114]

On 28 December 1884 it became known that through the combined forces of the Amsterdam financial elite additional capital (*f* 2,000,000 ) had been obtained. This persuaded Fokker to advise positively regarding an extra credit of *f* 1,000,000 to *f* 1,500,000. In the end the NHM negotiated a take-over of the consignment business of Dorrepaal & Co. and advanced *f* 2,000,000 on 400,000 *picols* of sugar. In other words, paying *f* 5 per *picol*.[115] Dorrepaal & Co. had finally been restructured into the Dorrepaalsche Bank der Vorstenlanden.

However, this was not the end of the story. The Dorrepaalsche Bank continued to struggle with a shortage of capital. By the end of 1885 an additional credit of *f* 3,000,000 was needed to finance its agricultural commitments. The NHM provided the money by concluding a new consignment deal. In July 1886 the company was bailed out again by the Dorrepaal family with *f* 1,000,000. One of the conditions was that Mirandolle, who had been sidelined when the Dorrepaalsche Bank was formed, became the new Director (De Bree 1928–1930: II 265–266; Bosma and Raben 2003: 253).[116]

Of course, these ad hoc solutions did not solve the chronic capital shortage of the Dorrepaalsche Bank.[117] More drastic measures were

[114] NA/KB 883: 71; BI/DJB 52 No. 51: 205–206; BI/DJB 52 No. 92: 487. The help offered by the NIS was continued for several years. In November 1886 its management wrote to all sugar manufacturers in the Principalities that it would again lower its freight rate for sugar transports with regard to the 1887 season. In practice this meant a reduction of transport costs per *picol* of sugar of up to 26% (NA/NHM 7963).

[115] NA/KB 883: 96; BI/DJB 52 No. 92: 484, 497–498.

[116] NA/KB 883: 162–168.

[117] On 30 August 1886 the Semarang agent of the NHM confirmed the acute shortage of capital in a letter to Batavia. He had been informed that the Dorrepaalsche Bank used its working capital for all kinds of other purposes. (For instance, three factories accredited *f* 475,000 on 3 April 1886 had received only *f* 262,000 at the end of July.) The owners' discontent started to grow and he was confident that these relations could be taken over by the Factorij with relative ease (NA/NHM 2444 No. 456; Bosma and Raben 2003: 253).

demanded. A reorganization plan was announced on 11 August which converted the Dorrepaalsche Bank into the Cultuurmaatschappij Dorrepaal. Shareholders and debenture holders were not enthusiastic and this sealed the company's fate. Suspension of payment was granted on 3 September 1886 for a period of one year. The firm faced a total loss of *f* 7,000,000. In September 1887, the management of the Dorrepaalsche Bank declared itself bankrupt. A new company by the name of Cultuurmaatschappij der Vorstenlanden (at some point the name Dorrepaal had been lost) would be its successor. Since only 30% was offered to pay for any outstanding debt of the dissolved Dorrepaalsche Bank, most creditors decided to participate in this new enterprise. On 1 March 1888 the Cultuurmaatschappij der Vorstenlanden was founded with total assets valued more than *f* 6,000,000 lower than its predecessor (Bosma and Raben 2003: 254; Helfferich 1914: 143–160).

The Dorrepaal family did not participate in this company. In early 1887, it had established the Klattensche Cultuur Maatschappij into which the privately owned enterprises (i.e. the ones not included in the debt settlement) were absorbed. Mirandolle was in charge of product sales which he soon turned into a separate company. From 1 January 1889 the trading company Mirandolle Voûte & Co., official representative of the Klattensche Cultuur Maatschappij, was in business in Semarang.[118]

### *The Crisis Prolonged: Sing Liong & Co.*

The commotion surrounding the financial reorganization of the agricultural export industry peaked in the first few months after the price of sugar plummeted (Colenbrander and Stokvis 1916–1917: II 144–147). Attention in the Netherlands was overwhelming. Newspapers reported frequently, if not daily, on the subject. A quick look at the issues of Dutch newspapers – e.g. *Algemeen Handelsblad*, *De Nederlandsche Financier*, *Het Nieuws van den Dag*, or *De Amsterdammer* – shows that during the last two months of 1884 and in early 1885 the crisis was considered hot news.[119] Soon after interest started to subside and finally dwindled away. The crisis ceased to appear on the front pages. The different committees installed to solve the situation did their job and were subsequently dissolved. Once again, business was conducted behind closed doors.

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[118] NA/KB 883: 165–166.
[119] See also NA/KB 916.

The massive financial restructuring of the agrarian export sector did not bring an immediate end to the crisis. At first instance, the consequences for the import side of the economy appeared negligible. In 1884 the total number of trade bankruptcies was 55 against 58 in 1883. There was a general sense of optimism among European and Chinese import traders. Many shared the belief that the sugar crisis was a momentary deviation caused by short-term speculation on the part of wholesale exporters. Few foresaw the tenacity of the depression and no one predicted it to last well into the 1890s (Rush 1990: 179–183). Statistical evidence published in 1889 shows how unwarranted the feeling of optimism was. The effects of the crisis had only been delayed and the import sector was hit by numerous bankruptcies (see Table 3.4).

Chinese traders figured prominently in this deteriorating situation. European wholesale traders experienced great problems in reclaiming their outstanding loans. Often less than 10% of extended credit could be retrieved. In 1887 75% of defaulting Chinese traders could not even accomplish that. Consequently, wholesale importers had to curtail their expenditures, not only because of outstanding debts, but also because money had become less available. The financial sector increasingly regulated its activities and the banks were more careful than ever in credit approval.

The wholesale import companies soon started to feel the shortage of cash. Among them was the trading firm Soesman & Co. which suspended payment on 21 November 1886 after more than 50 years of commercial

Table 3.4. Trade bankruptcies in the Netherlands Indies, 1883–1887.

| | Total | Chinese bankruptcies | | |
|---|---|---|---|---|
| | | | retrieved debts | |
| | | % of total bankruptcies | partially retrieved | less than 10% retrieved |
| 1883 | 58 | 38 (66%) | 36 (95%) | 21 (55%) |
| 1884 | 55 | 38 (69%) | 33 (89%) | 17 (45%) |
| 1885 | 99 | 66 (67%) | 64 (97%) | 32 (48%) |
| 1886 | 113 | 77 (68%) | 77 (100%) | 31 (40%) |
| 1887 | 110 | 69 (63%) | 17 (25%) | 5 (7%) |

Source: *De Indische Gids* 11 1 (1889) 1083–1084.

activity (Mansvelt 1938: Bijlage 1).[120] Soesman & Co. was a renowned and experienced import company in Central Java with a head office in Semarang and two branch offices in Solo and Yogyakarta. It had experienced no problems late 1884 and displayed no signs of payment difficulties. Still, it did not survive the crisis unscathed. At the end of 1885 the company closed its books with a total capital of *f* 887,000 of which 44% (*f* 386,000) had a short-term character. In other words, a significant percentage of its funds could be claimed by creditors at short notice. In addition, the company had extended credits to the amount of *f* 504,000. No harm was done as long as the instalments were paid on a regular basis. The situation changed rapidly in the first 10 months of 1886. Soesman & Co. suddenly experienced problems in payment from its debtors and could thus hardly meet the expiry dates of its own debts.

The explanation offered, illustrates the general economic circumstances in Java following the crisis of 1884.

> [...] the difficulties the firm finds itself in, can be attributed in principal to two causes, both of them a consequence of the current unfavourable circumstances.
> 1. the credit the company used to have at its disposal, is drawn back, which appears from the termination of deposits, whereas the facilities the company used to enjoy from houses here [trading companies in Semarang] when buying goods cannot be counted on anymore.
> 2. the debtors are paying less and less, manifesting itself particularly in the case of the indigenous princes and elite all involved in agricultural enterprises.[121]

From January to October 1886 average repayments of debtors amounted to approximately *f* 28,000 a month. The monthly sales figures on the other hand came close to an average of *f* 30,000. However, these goods were not paid for in cash upon receiving them. In other words, extra credit of about *f* 2,000 had been involuntarily extended whereas a contraction would have been more appropriate. No improvement was foreseeable and dissolving the company seemed the most sensible option. This course of action was justified, because:

> [...] it offers more opportunity to act powerfully against debtors, more especially the indigenous princes and elite, so that important payments from their part can take place, without running the risk of losing their very profitable clientele in case of a continuation of the business.[122]

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120 NA/NHM 7981 No. 241.
121 Ibidem.
122 Ibidem.

Adverse external circumstances had made Soesman & Co.'s position untenable. This happened with such speed that owners and creditors alike were taken by surprise. A number of internal measures were considered, like economizing on expenses or curtailing the field of operation, etc. Such arrangements would undoubtedly have given the company some breathing-space. The proposals were nonetheless rejected since it would take too much time to produce the required results. Creditors would soon start retrieving their loans instead of prolonging them for fear of losing their claims altogether.

The Chinese retail traders found themselves in a similar position. The situation in the *Chineesche kamp* (Chinese residential area) was therefore monitored closely. Bankers and traders paid scrupulous attention to any rumours regarding their Chinese clients. DJB recognized the need for more systematic retrieval and storage of information. Inspection of the agencies and their clientele was regularly conducted and had proven its value. DJB now started to pay even more attention to its clients' status. Over the years, agents had informed the head office about their clients in case of "certain changes" such as a delay in payment or rumours about a possible bankruptcy. This method had become outdated. The economic situation as well as the expansion of DJB's field of operation and its complex business dealings demanded more up-to-date information at immediate disposal.

In February 1890 the subject was raised by President S.B. Zeverijn.[123] According to him more should be done to ensure adequate information retrieval. From now on all agents had to keep records of their clients' status in 'information books'. These should be sent to Batavia, where the head office intended to compile a register of all companies and traders with whom DJB did business. Any firm or person considered important enough to be a potential client were to be included as well. The register would provide an immediate overview of a client's financial position and greatly facilitate future decisions regarding proposed transactions. Zeverijn's suggestion was put into effect and within a few months the first information books from Makassar, Surabaya, and Semarang were recieved.[124] The usefulness of the register proved itself in practice and

[123] BI/DJB 57 No. 79: 290.

[124] BI/DJB 58 No. 5: 16; BI/DJB 58 No. 14: 48; BI/DJB 58 No. 18: 61; BI/DJB 58 No. 32: 114. Unfortunately, the archive of DJB contained only the information book of Surabaya compiled in 1890. Whether the other books have been lost, misplaced or deliberately destroyed during the Pacific War remains a matter of speculation.

needed to be revised a decade later. In August 1900, the agents were instructed to compile new information books using a standard format with regard to both content and outward appearance.[125]

DJB's quest for information was only one attempt to enhance security. A refinement of regulations concerning the extension of credit was another. With bankruptcies rather common DJB was particularly aware of the need for sufficient surety. Each loan had to be covered to avoid financial risk. Obviously, this could not always be prevented, but the mistakes made in the case of the Chinese trading firm Sing Liong & Co. made it clear that there was much room for improvement.

*Sing Liong & Co.*

Around three o'clock in the morning on Sunday 11 June 1893 the inhabitants of *Kampong Bahroe* in Surabaya were rudely awakened by the sound of the *tongtong,*[126] The warning signalled the outbreak of fire in one of the godowns located in their neighbourhood. When police and fire-brigade arrived on the scene, smoke and flames were bursting from the roof of the warehouse. With the flames spreading to other buildings the fire could develop into a full-blown blaze. The police managed to force the entrance and the fire could be extinguished before causing any serious damage. Soon it became obvious that arson was involved. Inside the warehouse – divided into two godowns under the same roof – the air was permeated with the smell of petroleum. Upon closer inspection it was discovered that the wooden beams under the ceiling had been wrapped with gunny bags, soaked in petroleum, whereas the gutters of the building had been filled with petroleum as well. Even more disturbing was the fact that the adjacent godowns had also been smeared with petroleum. Had the fire not been detected so early very little could have been done. A disaster had been prevented by a stroke of luck.

Though the fire had started at the godown of Sing Liong & Co., its owners – Kho Swie Siang and Kwa Kok Ing – had no part in it. The investigation pointed to another Chinese trader, The Yang Hie, whose godown was situated in the same building. The rice in store at this location had been insured by him for *f* 155,000. A recount showed that the amount of rice present was only worth *f* 3,000. The Yang Hie was detained upon suspicion

125 BI/DJB 74 No. 41: 225.

126 In most instances a wooden block hammered on, to alarm people in case of distress.

of insurance fraud, but denied all charges brought against him. However, it took the police less than a week to find out that he had indeed masterminded the arson. Repeated questioning of The Yang Hie's Chinese employees led to the arrest of two Madurese day labourers, who subsequently confessed to the crime. According to their statements, they had been promised *f* 300 each in advance and *f* 500 after the job had been done. The Yang Hie had provided them with the petroleum and given specific instructions how to proceed. In order to avoid suspicion, the fire had to be lit at Sing Liong & Co. by breaking and entering through the roof. With this kind of evidence, The Yang Hie's denial was hardly convincing. The judicial process did not take long and in September 1893 The Yang Hie and his accomplices were convicted to fifteen years of hard labour.[127]

When the DJB head office first learned of the events in Surabaya, the Directors did not seem worried. President and Directors discussed the situation on 19 June 1893 after having received the necessary information from the Surabaya agency.[128] According to the agent – H.J.J. Hepp – the fire had done little damage and what damage there was could be reclaimed from the insurance companies. This applied specifically to Sing Liong & Co., which had been advanced *f* 73,000 with rice as collateral. The President added that DJB had no engagement with The Yang Hie and no financial losses could be incurred from his criminal actions. But Hepp had been less than frank when writing that the advanced sum was fully covered. The day after the fire he had become aware of a deficit in the quantity of rice stored at the godown of Sing Liong & Co.[129] Instead of reporting this, he bought himself time by ordering a recount. The reason for this will become clear in the following account which takes us back to the scene right after the outbreak of the fire.

Despite the early hour many people could be found in the street shortly after the alarm had been given. Among the curious crowd gathered to watch the fire, one person was professionally interested in the spectacle. V. Eweg had only recently been employed at the Surabaya agency of DJB with the task of guarding the collateral on the basis of which credit had been extended. He had been alerted by J.K. Herman, the *bewaarder* (keeper) of the godowns, who had come to his house within hours after

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[127] BI/DJB 63 No. 26: 129; BI/DJB 63 No. 63: 324; *SH*, 12-06-1893, 13-06-1893, 14-06-1893, 19-06-1893, 21-06-1893, 23-06-1893.

[128] BI/DJB 63 No. 26: 129.

[129] BI/DJB 63 No. 38: 202–206.

the fire. Upon hearing the news Eweg left as soon as possible to have a look himself.[130] Upon arrival he realized there was little he could do besides notifying his superiors. The next day Eweg visited the storage of The Yang Hie and Sing Liong & Co. again accompanied by Hepp himself. A first glance at the sacks of rice, damaged by petroleum and water, convinced them that something was seriously wrong. Clearly, there was a deficit but the disorder inside the godown did not permit an estimate at that time. The only thing to do was to order a recount and find out exactly how much was missing.

A deficit of minor proportion was not uncommon. In general the kind of loan Sing Liong & Co. had been given, was only authorized on a number of conditions. First and foremost, there should always be a 20% surplus value of products and/or goods against the money extended.[131] In other words, the *f* 73,000 credit from DJB, had to be covered by an amount of rice with an estimated market value of *f* 91,250. With the prevalent market price in Surabaya at approximately *f* 1,000 for 300 *picols* of rice, there should be 27,000 *picols* of rice.[132] The question was whether this amount was actually present. The recount carried out under the supervision of Eweg took some time and was not finished until 28 June 1893. The final outcome was worse than expected. Sing Liong & Co. was over 40% short, which amounted to 11,000 *picols* of rice with an estimated market value of *f* 37,000.[133] This entailed a breach of contract and DJB would normally terminate the existing agreement and demand an immediate reimbursement of the loan.[134] Unfortunately, this procedure could not be followed, for Sing Liong & Co. had been declared bankrupt two days before on 26 June 1893.[135]

President and Directors of DJB first learnt of the deficit and possible fraud of Sing Liong & Co. in a telegram informing them of the firm's bankruptcy. In a rather angry reply additional information was urgently requested. Within days the events leading up to the present situation were

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130 Ibidem.

131 BI/DJB 63 No. 37: 194.

132 *Soerabaiasch Handelsblad* (*SH*), 14-06-1893.

133 BI/DJB 63 No. 29: 145; BI/DJB 63 No. 30: 150.

134 This is what happened when Eweg reported a deficit in the godown of Ong Kong Wan on 17 May 1893. Ong Kong Wan had been advanced *f* 15,000, but upon inspection it turned out only about one-third of this amount was covered. DJB immediately cancelled the contract and demanded to be reimbursed before the end of May. Ong Kong Wan could only acquiesce and repaid the loan by 7 June in two instalments of *f* 12,000 and *f* 3,000 (BI/DJB 63 No. 38: 203).

135 BI/DJB 63 No. 28: 141; *SH*, 26-06-1893.

pieced together.[136] It transpired that Kho Swie Siang and Kwa Kok Ing had fallen out with each other. Kwa Kok Ing, who suffered from an illness, accused his associate of embezzling the company's money and financial records during his absence. In an effort to secure his property, he had seized the rice godown by court order whereupon Kho Swie Siang had filed for bankruptcy. Reimbursement from the two partners in the Chinese firm was now impossible.[137] The only person who could be held financially accountable, was J.K. Herman. As keeper of Sing Liong & Co's collateral, he had failed to make sure that nothing was moved in or out of the godown without proper registration. However, with hardly anything to his name, the sale of his assets would not be enough to compensate DJB. In short, a financial loss could not be avoided and the resulting damage had to be covered by DJB itself.

The head office was not content to leave it at this and pressed for firm action. Negligence was suspected and for good reason. The local newspapers of Surabaya were read in Batavia with great interest. The *Soerabaiasch Handelsblad* (*SH*) reported almost daily about the fire and its aftermath. Its coverage started with an article on 12 June and DJB's management must have been extremely intrigued by the concluding line:

> Conspicuously, from a writing desk in the godown all the books, papers, etc. had disappeared. Saved in time or stolen, one wonders.[138]

As a result of the following investigation, Kho Swie Siang was arrested. The company's records were never retrieved and Eweg's attempts to obtain the godown's registry remained fruitless.[139] When exactly the rice had been moved and who had been involved could not be ascertained. Agent Hepp was getting increasingly worried. The head office was running out of patience and not prepared to accept more delay. Hepp's delaying tactics can be understood when we take his nomination as Director of

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136 BI/DJB 63 No. 29: 144–146; BI/DJB 63 No. 30: 150–152.

137 Ever since 1855 the Netherlands Indies judicial system allowed Chinese businessmen to file for bankruptcy themselves. This was a common feature in the trading sector at large. Approximately three quarters of the total number of pronounced bankruptcies in the Netherlands Indies for the period 1883–1887 had been initiated by the defaulter himself (1883: 74%; 1884: 76%; 1885: 71%; 1886: 76%; 1887: 86%). This practice was a source of aggravation for many European wholesale traders, fearing fraudulent intentions from the side of the Chinese. As late as August 1892, J.W. Young – working as a translator of Chinese in Semarang – had fulminated against it, pleading for a change in the law in order to offer more protection against suspected Chinese bankruptcies (Meeter 1881: 64–64, 67; *De Indische Gids* (*IG*) 11 1 (1889) 1083–1084; TNI 21 2 (1892) 244–245).

138 *SH*, 12-06-1893.

139 BI/DJB 63 No. 38: 204.

DJB in consideration. His successor had already arrived in Surabaya and everything had been arranged for his departure to Batavia on 3 July. The shock must have been great when he received a telegram on 30 June telling him to remain in Surabaya.[140]

Hepp was instructed to wait for a list of questions pertaining to the matter of Sing Liong & Co. drawn up by President and Directors. The earlier dismissal of Herman had not sufficed to soothe the matter. Since the agent was ultimately responsible, Hepp probably feared a reprimand or even worse. He was fully aware of the fact that he had not been installed yet as Director of DJB. With his career in jeopardy Hepp found an easy scapegoat in the person of Eweg. So far Eweg's conduct had not been criticised and Hepp even suggested appointing him in the former position of Herman. Suddenly, Hepp's favourable opinion of Eweg changed.[141] He accused Eweg of having played an ambiguous role and of having tried to mislead him. Eweg tried to refute these allegations. According to him he had informed the deputy agent E.M.A. Noothout twice about a possible deficit at Sing Liong & Co.'s, but to no avail. Noothout flatly denied this and Eweg was not believed. In fact, it hardly mattered whether Eweg told the truth or not, because he had compromised himself to such an extent that his pleas seemed unconvincing.[142]

Eweg had been employed by DJB less than a year. He and his family had arrived in Surabaya in 1892. Faced with the costs of renting and furnishing a place to live, Eweg ran into financial problems. He decided to borrow money from a befriended Chinese trader. It turned out that he had taken up a private loan of *f* 250 with none other than Kwa Kok Ing. This was deemed unacceptable. Eweg was fired instantly, although there remained some doubt whether or not he had really conspired with Sing Liong & Co. The President and Directors even expressed pity for him and his family. No charges were brought against him and an earlier advance on his salary was written off. In addition, he was given six weeks pay. In the case of deputy agent Noothout inquiries were made as to his suspected negligent behaviour, but no further disciplinary measures were taken.[143] Hepp got

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140 BI/DJB 63 No. 30: 151.

141 BI/DJB 63 No. 31: 153–154.

142 BI/DJB 63 No. 33: 166; BI/DJB 63 No. 38: 202.

143 Nevertheless, Noothout had been compromised by the whole affair and rumours – originating from Eweg – concerning his alleged shameful behaviour started to circulate in Surabaya. In the end, his once promising career at DJB proved to be short-lived, because in 1894 his employment was terminated (BI/DJB 63 No. 37: 193–194; *Regeeringsalmanak voor Nederlandsch-Indië 1894, 1895*).

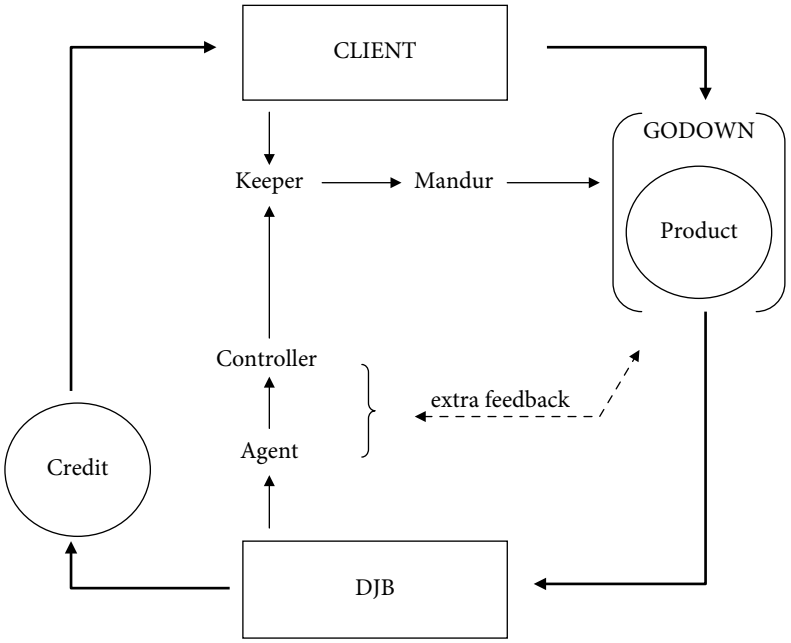
his promotion and would serve as Director of DJB from 1893 till 1898 (De Bree 1928–1930: II 576–577). Finally, Kho Swie Siang was found guilty of embezzlement and sentenced to three years of hard labour. No charges were pressed against his associate Kwa Hok Ing to the regret of DJB's new representative in Surabaya, who attributed the whole affair to mismanagement of his predecessor.[144]

The fire of Sunday 11 June 1893 saw not only The Yang Hie exposed as an impostor, but also the owner(s) of the trading firm Sing Liong & Co. Had it not been for the failed arson attempt, these fraudulent actions might have gone unheeded. The same applied for the apparent negligence of several of DJB's employees in Surabaya, who had failed to perform their duties adequately. As a result, jobs were lost, reputations tarnished and a financial write-off had to be accepted.

In reaction to all this, the regulations for credit extension were severely scrutinized. Discussions regarding this subject had been held before. Argumentation had centred around the kind of credit DJB could provide. DJB's statutes only allowed trading activities to be supported, but sometimes local circumstances prompted a different approach. In 1862 long-lasting credit arrangements with agricultural and industrial enterprises had therefore run as high as *f* 1,500,000. The Netherlands Indies government had intervened and DJB's management in Batavia promised to mend its ways. However, acknowledging the problem fell short of effectively dealing with it. Knowing the importance of local expertise DJB was not willing to curtail the independence of its agencies too much. A rather vague guideline was formulated in 1876 which left sufficient room to accommodate requests not fitting the standard format.[145]

The experience with Sing Liong & Co. made it abundantly clear that an overhaul of credit regulations was urgently needed. The surplus value of the collateral was raised from 20% to 30%.[146] There followed a long and drawn-out debate about supervision which would last until 1895 (see Figure 3.1). The main question was how to anticipate changes influencing the conditions under which credit had been extended. An improvement in monitoring was emphasized. The job of controller (*controleur*) was created to achieve this and a detailed and standardised set of instructions for both controller and keeper replaced the old ad hoc

144 BI/DJB 65 No. 37: 107.
145 BI/DJB 43 No. 28: 137, 139–140; BI/DJB 43 No. 47: 295–309.
146 BI/DJB 63 No. 37: 194.




The flow of credit on the basis of products (agrarian or otherwise) is represented by the black arrows running clockwise. The monitoring function is represented by the thin lines with the arrows pointing to the levels under supervision. The dotted line shows the extra feedback mechanism, in order to achieve an even higher level of control.

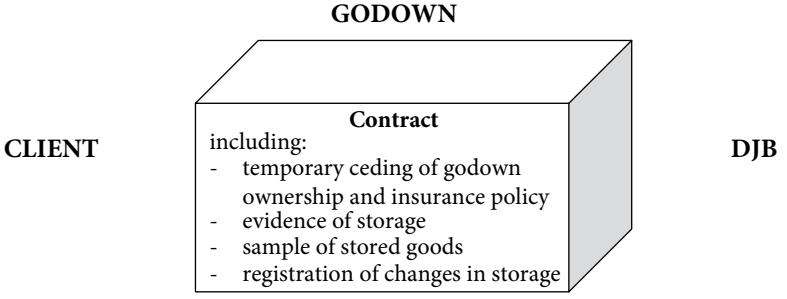



Fig. 3.1. Credit arrangements with improved monitoring function.
Source: BI/DJB 67 No. 10: 47, 63–91.

guidelines.[147] Attention was also paid to the period preceding the signing of the contract. A whole array of certified documents was required before parties would sign the deal in the presence of a notary.

[147] The *controleur* was an employee of DJB specifically tasked with the supervision of any outstanding credit including the conditions under which it was extended. This

Nevertheless, it remained difficult to find a format applicable to all circumstances. This was not even desired by DJB's management. In reaction to a proposition made by his successor in Surabaya, Director Hepp warned against the tendency to regulate the whole process in the smallest detail.

> It seems to me, that the Agent wants to elicit instructions for all conceivable circumstances, so that he is always covered and nothing has to be left to his own initiative. [...] I consider such generalization inappropriate, it should be left to the Agent to act according to the circumstances.[148]

In his opinion it was simply impossible to anticipate every conceivable incident. Each agent had to take his responsibility. Hepp himself elaborated on this by remarking that:

> It will probably be impossible to conduct business without any risk, no matter how small, and without any confidence in his helpers and subordinates.[149]

A true, but somewhat puzzling statement, when seen in the light of his earlier opportunistic stance.

By implementing the new regulations DJB found itself better equipped against future bankruptcies. This strategy of risk reduction was not infallible, but seems to have met its purpose reasonably well. The trading sector naturally aspired to similar regulations, enabling them to guard their interests more efficiently. But even the biggest trading companies could not act as independently as DJB. Operating in a far more competitive business environment, a significant reduction of risk could not be achieved by internal measures only. Few acknowledged this outright and attempts to join forces were only made when the situation really demanded it. It would take until 1897 before such an instance occurred. When a wave of Chinese bankruptcies threatened to undermine the trading sector of Surabaya action was finally taken. In the following chapter this event and the background against which it took place will serve to illustrate the challenges faced by the trading business at the turn of the century.

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entailed much paperwork, but as part of his responsibilities he would also inspect godowns paying close attention to the way the *bewaarder* performed his duties.

148 BI/DJB 67 No. 10: 87.

149 BI/DJB 67 No. 10: 89.

CHAPTER FOUR

# REDEFINING DUTCH-CHINESE COMMERCIAL RELATIONS (1890S–1910)

In 1892 an official inquiry was ordered into the economic position of 'Foreign Orientals' in Java and Madura. The final report conceded their economic indispensability, but also demonstrated their 'harmful' presence. Increasingly, all kinds of economic and social wrongdoings were attributed to the Chinese presence in Java's interior. To diminish Chinese economic dominance the revenue farm system was gradually abolished. In its wake the enforcement of the so-called *passen- en wijkenstelsel* – designed to control the whereabouts of the Chinese population – became vigorously debated.

The Chinese response to these deteriorating circumstances was influenced by renewed contact with China towards the end of the century. The overseas Chinese adopted a more assertive attitude when dealing with the colonial government and/or its commercial establishment. Deprived of any political power, but aware of their leverage within the colony's economic structure, the Chinese used boycotts as a means to defend their (commercial) position. This development of their organizational skills ridiculed the cherished conviction of a natural order of things within colonial society.

## *An Awkward Alliance: The Interdependence of Dutch and Chinese Business*

"No two peoples have ever been more loyal to one another than the Dutch and the Chinese, but now [...] this friendship has been severed [...]." Such were the words of the *Syahbandar* of Juana a year after the massacre of the Chinese in Batavia in 1740.[1] The revolt of the Chinese in the vicinity of

[1] The *Syahbandar* or harbourmaster was a key official within the trading ports of the Malay world, who had purchased the right to collect import and export duties. This position implied profitable business opportunities and formalized recognition of an individual's status, wealth and power within society. (Liem 1933: 17–19; Nagtegaal 1996: 223; Remmelink 1994: 129). The Dutch adapted the institution of *Syahbandar* into their *kapitan* appointments from which ultimately the elaborate officer system in the Netherlands Indies would stem (Knaap and Sutherland 2004: 22–25; Lohanda 1996: 33–34, 39–50; Reid 1993: 70–71). See also Chapter 2, Paragraph 'The Colonial State and the Economy'.

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Batavia, which led to the death of thousands of Chinese within the city itself, had everyone stunned. The Javanese reacted with disbelief since the Chinese and the Dutch were like two sides of the same coin. Their alliance was regarded so strong that the Javanese had come to consider the Chinese trading network an extension of VOC activity. According to Susuhunan Pakubuwana II, the Chinese were like women without any power, fit only for trading and managing tollgates, because "[…] wherever the Chinese live […] they are supported by the Honourable Company and are permitted to trade […] and grow rich, all of which is made possible by the Honourable Company" (Nagtegaal 1996: 221–222; Remmelink 1994: 129).

The Chinese were well aware of the precariousness of their position as shown by the distressed reaction of the Chinese captain and lieutenant of Semarang, Que Anko and Que Jonko.[2] Upon hearing of the revolt and killings in and around Batavia, they tried to convince the VOC headman in Semarang B. Visscher of their loyalty and good intentions. However, the Company tended to lump all Chinese together. Any distinction between 'good' or 'bad' Chinese evaporated when put to the test. As Chinese started to lay siege to Semarang in June 1741, Que Anko and Que Yonko were put into chains with Visscher fulminating: *Potong kepala, semua!* (cut their heads off, all of them!). Que Anko did not survive the ensuing madness.[3] In the end the full-scale revolt of the Chinese destabilized politics in Java with Javanese rebelling against the VOC and the Chinese urban elite as well. In 1743 the rebellion collapsed, but internal strife among the Javanese elite continued unabated, leading to the destruction of the Mataram empire and its division into the Yogya and Solo courts in 1755 (Ricklefs 2001: Chapters 9 and 10, especially 119–130; Bongenaar 2005: 51–53).

It would take more than 150 years before the well-nurtured (economic) alliance between the Dutch and the Chinese was seriously questioned again. The severed friendship between the Dutch and Chinese elite was

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[2] The ascendancy of the Que family started with the appointment of Que Kiau-ko as the first Chinese captain of Semarang in 1672. He originated from Haiting in Fukien (the current district of Fujian in South China), but migrated to Batavia where two brothers served as captain and lieutenant. After moving to Semarang he managed to built a successful career, no doubt benefiting from his family connections. Around 1684 Que Kiau-ko returned to Batavia where he administered the Chinese graveyard and the *Boedelkamer* in its dealings with Chinese business. After a few years he returned home to his place of birth in China. In 1685 the Que family also obtained the position of *Syahbandar* in Semarang, which accentuated their social and economic prominence. Que Anko, who made his fortune in the sugar trade, succeeded as *kapitan* and *Syahbandar* of Semarang in 1706 (Liem 1933: 9–10, 27–28; Nagtegaal 1996: 99–101; Ong Tae Hae 1849: 25–26; Willmott 1960: 5, 212).

[3] See Nagtegaal (1996: 100, 220–223), Remmelink (1994: 126–129, 135–137, 147–148), Liem (1933: 33–35), Blussé (1986: 73–96).

mended remarkably quick after 1740. The Dutch encouraged the Chinese to resume their economic role to ensure the continued supply of life's necessities and to safeguard their less mundane, but far more profitable interests (Remmelink 1994: 128; Ng Chin-Keong 1991: 374).[4] Immediately after the pogrom in Batavia, they set out to restore the breach of trust. The members of the Chinese urban elite – whose revolt it never had been in the first place – eagerly responded (Blussé 1986: 96).[5] Despite the fear and distrust between them the Dutch and the Chinese remained allied to each other.

### *The Chinese in Southeast Asia and the Netherlands Indies*

The Chinese played a pivotal role in the colony's economic sphere ever since the founding of Batavia which relied heavily on its population, revenue and services (Blussé 1986: 72–96; Pan 1999: 152–153; Reid 1993b: 74). Chinese contacts with Southeast Asia had however been a feature of life long before the Europeans arrived. As early as the ninth century Chinese sojourners had become a socially visible group within the Indonesian archipelago (Li Minghuan 2003: 215; Stuart Fox 2003: Chapters 3–5). Mongol pressure pushed Chinese south as far as the island of Java in the thirteenth century. This episode brought a major injection of Chinese technology to Java (notably in shipbuilding and coinage) and greatly stimulated commerce. In the early fifteenth century strong Chinese communities existed in Java and Sumatra. Around 1600 large and very distinct colonies of Chinese could be found in Asian ports such as Phnom Penh, Manila and Banten. In Banten the Chinese at this point numbered approximately 3,000 living in a separate quarter outside the city wall (Pan 1999: 50–51; Stuart Fox 2003: 98).

Chinese emigration to these places originated mainly from the southeastern provinces of Fukien (Fujian) and Kwangtung (Guangdong) (see

[4] According to VOC sources Visscher, who suffered a break-down during the Chinese attack on Semarang, only thought of the money he had invested in Que Jonko. Afterwards, he claimed a loss of 100,000 *rijksdaalders* (rixdollars). A stunning sum considering his monthly salary of approximately 55 rixdollars (Remmelink 1994: 131, 143).

[5] The Company employed influential Chinese to persuade their fellow countrymen to return to Batavia and resume trading. One of them was Que Jonko, whose letters and messengers seem to have convinced many demoralized Chinese to come back to Semarang. The merchant Tan Iko provides a similar example. He was invited to come over from Semarang at the end of October 1740 in order to introduce and guide Chinese newcomers to Batavia. He declined the offer, but set an example by travelling to Batavia in November 1740, where he would later settle before returning to China in 1747 (Remmelink 1994: 166, 170; Ng Chin-Keong 1991: 374; Hoetink 1917: 371–372; Hoetink 1922: 90).

Map 3 and 4).[6] The main factors contributing to the high level of emigration from these areas to Southeast Asia were the incidence of extreme poverty, geographical proximity and historical opportunity.[7] In Fujian only 11% of the land was worth cultivating, while Guangdong had a mere 7% of arable land. However, in some areas only 40% to 50% of the arable land could be used for rice cultivation leaving the remainder suited only for root crops. In addition both provinces were severely overpopulated while the area's infrastructure was exceptionally bad. Adding to these difficulties were periods of domestic disruption as well as the existence of corrupt officials and oppressive government policies. As a result, large segments of the population of Fujian and Guangdong lived a life of misery aggravated by recurring famines.[8] Given the proximity and knowledge of other countries – owing to the coastal (junk) trade[9] conducted between China and Southeast Asia – many were willing to board a ship in order to obtain a better future.[10]

Chinese overseas migration to the *Nanyang* (lit. 'Southern Ocean') came in bursts and was encouraged by the strong geographic expansion of China under the Qing dynasty (1644–1911). From 1680 to 1780 Chinese

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[6] See Ng Chin-Keong (1983: 1–41), Pan (1999: 30–39, 46–71), T'ien Ju-K'ang (1953: 2–10), [Verslag] (1891: 305–311), Wu Xiao An (2003: 17–19). Ng Chin-Keong (1983) is particularly useful in his identification of the push and pull factors at play in the southern part of Fujian. His account of economic (e.g. population-to-land ratio, land ownership) and social conditions (especially lineage organization) reveals the main causes of what he calls the 'rural exodus'.

[7] Economic imperatives were of overriding importance given the fact that the social barriers to migration were large. First, until 1858 the Chinese government opposed migration and treated migrants as lawbreakers, unworthy of protection by their government and punishable upon their return. Second, the Chinese considered the desertion of ancestral homes as undesirable and frowned upon those that did. Third, the hazardous journey and uncertain living and working conditions abroad were acceptable only if the alternatives were famine and death (Limlingan 1986: 34; Stuart Fox 2003: 118, 122–123).

[8] The frequent occurrence of famine in Fujian confirms this. In the seventeenth, eighteenth and nineteenth century 228, 158 and 101 cases of famine were recorded. Another indication of the hardship endured is the sharp reduction of the total population of Fujian in the nineteenth and early twentieth century by almost 50% from 25.8 million in 1842 to 13.1 million in 1910 (Pan 1999: 30; Limlingan 1986: 34–35).

[9] A description of the Chinese junk trade is given in Blussé (1986: 97–155, especially 97–113). See Tan Tjoan Ik (2002: 54–59) for the types of junks and technical details regarding measurements, tonnage etc.

[10] Fujian's and Guangdong's location at the shores of the South China Sea provided a livelihood to its people and turned their attention outward. The Fujianese were well known as maritime merchants trading with China, Korea, Japan and Southeast Asia. Fujian was largely dependent upon overseas trading for its survival since the province failed to cultivate enough rice. 'Sea is paddy to the Fujianese' according to a Chinese phrase still in use today, which clearly emphasizes the overriding importance of the sea to its inhabitants (Pan 1999: 30–31; T'ien Ju-K'ang 1953: 4).

society experienced an unprecedented growth of both population and economy (Blussé 1999; Gang Deng 1993: xxiii; Kwee Hui Kian 2006: 13–15).[11] This led to a surge of Chinese migrants to Southeast Asia aided by a decision of the Chinese authorities in 1684 and – after a ten-year suspension – 1727 to remove a ban on overseas trade. Sojourning abroad and especially serving a foreign government continued to be condemned, but in 1754 the authorities declared that any Chinese abroad would have his property protected and be entitled to return home. This measure encouraged the departure of even more Chinese.[12]

Migrants were called *Huaqiao* or *Hoakiau* in the Netherlands Indies meaning 'Chinese sojourner'.[13] Those who settled in the Indonesian archipelago predominantly came from the southern part of Fujian and would therefore speak *Hokkien* – the local pronunciation of the word Fujian – which is the main speech group of this area (Jansen s.a.: 9–13; Pan 1999: 24). However, under colonial circumstances the word *Hokkien* primarily signified people originating from the whole of Fujian even though they could not necessarily understand each other (see Map 4).[14]

In Java Chinese settlements formed all along the northern coast of the island (*Pasisir*). In ports like Banten, Batavia, Cirebon, Semarang and Surabaya, but also in smaller towns like Jepara, Pekalongan, Rembang and Tuban. Although the early settlers married local women, succeeding generations tried to maintain their Chinese character. Among the poor or isolated Chinese full assimilation took place, but this was probably not the

[11] Despite the doubling of the country's population from 160 million in 1700 to 350 million in 1800 per capita income remained stable at relatively high levels and/or slightly increased (Goldstone 2002: 348–353).

[12] See Kwee Hui Kian (2006: 13–14), Ng Chin-Keong (1983: 55–61, 184–193), Reid (1997: 11–14), Stuart-Fox (2003: 105–114).

[13] Closely connected with it is the word *qiaoxiang*, meaning 'sojourner's home village'. The shared word *qiao* means 'to stay away from home temporarily'. Sojourners differ from migrants in that they are supposedly temporary residents who will return home one day. However, *Huaqiao* often ended up as settlers as illustrated in the following Fujianese saying: 'Out of every ten who go abroad, three die, six remain and only one comes home.' (Pan 1999: 16–17, 46–47; T'ien Ju-K'ang 1953: 2–3; Kuhn 2003).

[14] China can be divided into ten language groups of which Mandarin is the most important. It is spoken by more people than any other language and enjoys the prestige of being the language of administration and education. The linguistic diversity of South China is particularly marked. It is hard for a southerner to make himself understood by another southerner living in the next town, let alone by a northerner speaking Mandarin. This is evidenced by the fact that the main language in Fujian is divided in eight subgroups of which *Hokkien* is only one. In turn *Hokkien* is subdivided into yet another three subgroup speech areas (Pan 1999: 22–25; Shaughnessy 2005: 21, 238–239).

rule. Cultural influences however soon gave birth to a specific *peranakan* subculture.[15] *Peranakan* Chinese thought of themselves as Chinese and were regarded by others as Chinese, but in their lives they displayed many indigenous cultural traits such as the adoption of Malay and/or the prevalent regional language, local dress, food and table habits. Being a *Peranakan* therefore implied the adoption of a creolized or mestizo culture with strong indigenous influences often including racial mixing through the maternal line (Khoo Joo Ee 1998: 23–28; Pan 1999: 153–155; Rafferty 1984: 247–248).

Since migrants from the south of Fujian established themselves earlier in the archipelago than other language groups, such as the *Hakka* and Cantonese, the vast majority of the *Peranakan* in the Indonesian archipelago were *Hokkien* in origin, particularly in Java.[16] Two migratory waves in the periods 1860–1890 and 1900–1930 changed this balance to a degree. Still, despite the considerable influx of newcomers the Chinese community in general remained dominated by local-born Chinese, i.e. *Peranakan*. Even after the second migratory wave *Peranakan* continued to constitute about 62% (750,000) of the total Chinese population in the Netherlands Indies in 1930, while the China-born newcomers (called *Singkeh* or *Totok*) accounted for 450,000 (Twang Peck Yang 1998: 19).

The arrival of many newcomers from China towards the end of the nineteenth century did cause a rift in the Chinese community in Java. *Totok* and *Peranakan* did not share each other's language, history, level of assimilation and economic position. Chinese of higher economic status in Java were mostly *Peranakan*, while only some newcomers occupied such a position. Both population groups generally despised each other. For *Peranakan* the term 'stinking immigrant' was a common way of referring to the *Singkeh* until the 1930s. On their part the *Singkeh* claimed cultural superiority since the *Peranakan* had no awareness of China, their ancestral home towns, or the Chinese language. Unable to capitalize upon their socio-economic position the *Singkeh* tried to improve their economic status and thereby initiated fierce economic competition within the Chinese community (Jansen s.a.: 13–16; Twang Peck Yang 1998: 20–21).

Many newcomers traded as most Chinese had done before them (Cator 1936; Ong Eng Die 1943). In 1875 48% of the Chinese workforce was

[15] *Peranakan*: people of Chinese descent born in the Indonesian archipelago.

[16] The origin of Chinese loan words in the Indonesian language shows that 91% of these words derives from the south of Fujian (Kong Yuanzhi 1987; Kong Yuanzhi 2005: 182–240, especially 183).

engaged in some sort of commercial activity. In 1900 this percentage stood at 44%, in 1905 at 43%. Only full-time registered traders were counted as such and substantial (illegal) trading activity must have remained unaccounted for. Underregistration was probably less of a problem during the 1930 census which explains the higher percentage (58%) of Chinese traders.

*Ethnic Origin and Occupation*

The percentages above indicate a correlation between ethnic origin and occupation. This phenomenon was not limited to Java alone, but a striking feature of island and mainland Southeast Asia during the nineteenth and first half of the twentieth century. Chinese and Indians filled the occupations of trader, merchant and moneylender. The indigenous population engaged in cultivation as owner-occupiers, tenants, or labourers, while the Europeans occupied the high positions in administration and commerce. It should be noted that these divisions were by no means rigid. There were indigenous traders and moneylenders in the region while Chinese and Indian labourers worked in processing mills, on the docks and in warehouses (Brown 1997: 160–161).[17] The combination of ethnicity and specific occupations was nevertheless distinct and cannot be ignored.[18]

Many explanations given for the ethnic division of occupation in Southeast Asia focus on cultural differences. Cultures differ, it is argued, as a result of differing contexts, i.e. contrasting physical environments and diverging political, economic as well as social historical experience.[19] The argument in the case of the Chinese is that the southern part of China was mountainous, infertile, prone to flood and drought and overpopulated. In this Malthusian setting hard toil was essential for survival. Consequently, strongly admired social values were industriousness and frugality. In addition the continuity and cohesion of kinship groups was stressed. Ancestors had given a family what they now possessed, and in turn they acknowledged their responsibility to toil and save for the benefit of those who followed. A strong obligation was felt to help one another even in the case

[17] See, for instance, Houben and Lindblad (1999) for a detailed study of coolie labour and labour relations in the Outer Islands of Indonesia during the period 1900–1940.

[18] In his book on economic change in Southeast Asia I. Brown has devoted a chapter on ethnic origin and occupation in Southeast Asia (Brown 1997: 1–12, 160–174).

[19] The importance of environmental differences and diverging historical experience as opposed to idiosyncratic cultural factors and/or differences in innate ability is convincingly argued by Diamond (Diamond 2005: 25, 405–420).

of comparatively distant relatives. Chinese society thus emphasized lineage advancement and placed a high value on material success. It is likely that such virtues were as central to survival in the uncertain world of the immigrant.

Under such circumstances the individual entrepreneur was encouraged to work within extended, kin-based organizations which facilitated the emergence of bigger firms, the pooling of capital and enterprise and the sharing of commercial risks and opportunities. This gave him a far-flung network of dependable trading contacts. It is suggested that all this gave the Chinese appreciable advantages in trade and commerce. For centuries south China had been involved in external trade. The mountainous terrain made easy communication by land with central and north China difficult to establish and therefore a vigorous coastal trade had come into existence. This had matured into long-distance maritime trade with many parts of Southeast Asia long before the first Western traders arrived in the region (Blussé 1979; Gang Deng 1997 and 1999b). Longstanding trading experience subsequently led to heightened commercial sophistication. Calculations of risk, return, margin and profit were common and the Chinese command of commercial and financial practices was extensive.

Indigenous traders in Southeast Asia mostly lacked this kind of crucial experience. Though compressing the argument dangerously, the social values, structures and historical experience of their societies seem to have offered them less opportunity to develop their commercial and financial skills, or to create extensive trading contacts.[20] This is far from saying that trade was non-existent or introduced to indigenous society in response to the arrival of the first Europeans in Asia. On the contrary, in the sixteenth and seventeenth centuries Southeast Asian trade was vibrant and used commercial techniques as developed as those in Europe.[21]

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[20] The frequently voiced (colonial) complaints of native indolence and economic irrationality as the root cause of this cannot be taken seriously. The same applies for the presupposed damaging influence of religious beliefs on economic behaviour. These views collide with (past) reality. The extraordinary toil and vast commitment of the Javanese population to the production of government crops under the Cultivation System contradict this image. So does the explosive expansion of smallholder rubber in Kalimantan, Sumatra and the Malay States in the decades before the 1930s (Brown 1997: 144–159; Henley 2005). Generally speaking the rural populations across Southeast Asia were sharply responsive to market opportunities, prospects of material advance and greatly industrious (Clemens 1989; Lindblad 1988a: 58–78; Thee Kian Wie 1977; Thee Kian Wie 1994: 95–98; Touwen 1997: 144–197).

[21] See the account of Frederik de Houtman of his voyage in 1598 to the Indonesian archipelago. During his Acehnese captivity he mastered the language and observed local trading conditions. After his return to the Dutch Republic he published the first

In general the mighty chartered trading companies found it difficult to compete with Asian traders in any market, except when they could use violence without fear of retaliation. Political and military power, rather than superior commercial organization, seem to have been crucial in wresting control of some of the trades from indigenous merchants. Where weapons did not suffice, Europeans often found themselves losing out to Chinese and other Asian merchants, or joining up with them.[22] Trade in Southeast Asia was well established and it took the Dutch about two hundred years of fierce competition to suppress the local and Asian merchants and take over the international trade for themselves (Dewey 1962: 190–191; Knaap 1996: 171–173; Kwee Hui Kian 2006: 26–28).

Still, research has shown that the social and economic structure of, for instance, Java and Siam (present-day Thailand) did influence the commercial practices of the indigenous population in a decidedly different manner when compared to the Chinese (Dewey 1962: 27–50; Van Gelderen 1966: 144; Skinner 1957). Both Java and Siam were fertile, underpopulated regions in which subsistence was secured with relatively more ease than in the southern provinces of China. The need for hard toil in order to survive was less of a necessity and self-denial secured little advantage. Javanese and Siamese alike had no ancestor cult, made little or no use of family names and kinship ties were far less extensive. For the Javanese the nuclear family was the primary economic base although patron-client relationships were of importance in the rural villages. The importance attached to material success by the Chinese was not recognized by the Siamese who condemned too excessive concern with material ambition.[23]

A further important contrast is the amount of involvement in external trade. Almost all of the great empires of Java were or had been inland states making agricultural considerations of overriding concern to them. With the rise of two new powers in Central Java (Pajang and Mataram) in the middle of the sixteenth century the centre of political gravity decisively shifted from the coastline to the interior. Likewise, Siam's

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Dutch-Malay language book and dictionary in 1603. This little volume dealt primarily with trading topics such as buying and selling, reclaiming debts, negotiating sales, etc. (De Houtman 1603; Van der Sijs 2000: 32–56, 122–220).

[22] See Pearson (1990: 106, 108), Pomeranz (2000: 182), Reid (1993a), Subrahmanyam (1995: 753), Wills (1993: 83–85, 104–105).

[23] This is evidenced by the large number of Siamese males who renounced the material world by temporarily entering the Buddhist order and who were held in high esteem by the population.

involvement in external trade was limited. Until 1688 the Thai kingdom of Ayutthaya (1350–1767) had welcomed foreigners and important commercial ties were forged over the years. Foreign political meddling, however, resulted in the expulsion of foreigners and ushered in a 150-year period during which the Thai isolated themselves from contacts with the West (Brown 1997: 162; Houben 1994b: 63; Ricklefs 2001: 18–19, 45–46).

Nevertheless, there was a close relationship between state power and mercantile activity in Southeast Asia. Trade was critical to the Southeast Asian economy in contrast to the economy of China where commercial revenue enhanced the splendor and prestige of the court, but was not central to its political economy. Size matters and those in control of smaller political units, such as the rulers of Asian port cities, had to take more interest in overseas trade. State revenue depended more upon taxes on trade and the rulers' own participation in it than on land revenue. This link between commerce and wealth in maritime Southeast Asia dictated the domination of ruler and state in the administration of commerce, restraining the growth of indigenous merchant enterprise (Kathirithamby-Wells 1993: 125–130; Pearson 1990: 69–77; Subrahmanyam 1995: 751, 756–763).

Early modern Southeast Asia possessed few formal mechanisms to prevent those in power from seizing the wealth of their subjects (Chauduri 1985: 210–215; Faure 2006: 11–25; Kathirithamby-Wells 1993: 135–136, 142). Compared with China there was little protection in law for individual property against the power of the state (Bayly 2004: 60–62; Deng 2000: 4; Deng 2004). Accumulation of private capital was clearly difficult under these circumstances. In absence of protection through the law individuals secured property and position principally through the cultivation of patronage ties which involved the exchange of gifts and conspicuous displays of wealth. This ran counter to the promotion of frugal habits needed for commercial endeavour. Furthermore, during the long period of export growth that Southeast Asia experienced from around 1450 to 1680 (dubbed the 'age of commerce') state monopolies – such as in Ayutthaya – frequently secured the trade of the most valuable articles. This limited the opportunity for indigenous traders to gain business experience, build long-distance networks, or accumulate capital (Kathirithamby-Wells 1993: 130, 132; Stuart-Fox 2003: 93).

Foreign merchants benefited from this situation as they were frequently appointed to important commercial positions like *Syahbandar* (harbourmaster). These appointments facilitated trade with foreign merchants who visited the court and excluded domestic rivals from positions of

wealth and influence which might provide a potential power base to challenge the ruler (Adas 1981: 230; Kathirithamby-Wells 1993: 133). As a result foreign merchants – in alliance with the indigenous elite – came to command the commercial centres, leaving local traders without patronage in more peripheral roles as pedlars and petty brokers. The advance of European power in the seventeenth century reinforced this divide between foreign and indigenous capitalists. The Dutch defeated local rulers in a series of military confrontations and forced the population to abandon the trade of the region's most important products, or accept exclusive and oppressive trading arrangements which largely eliminated Asian intermediaries from the trading system.

This retreat from international commerce divided the indigenous and immigrant population, notably the Chinese, in a number of ways. Once they had asserted their power the Dutch separated off the Chinese communities in order to reduce the opportunities for alliance between the Chinese and indigenous population and enhance the effectiveness of the Chinese as commercial intermediaries. Following established Asian practice in each town under control of the Dutch the Chinese were allocated their own quarter and governed through their own administration. They serviced these towns in their role as traders and moneylenders, but also as craftsmen, provisioners, labourers, etc. (Blussé 1986: Chapters 4 and 5; Brown 1997: 41–42).

The identification of the Chinese with economic power in Southeast Asia was completed by their near-exclusive command of revenue farming and their indispensability to Western commercial enterprise. The quintessential revenue farm, sold at auction to the highest bidder, arose from the combination of Dutch organisation and Chinese business (Reid 1993b: 73–74, 76).[24] It usually generated an income exceeding the sum paid for it, which made it an important source of economic power for the Chinese in Southeast Asia. As it absolved the state from responsibility for revenue collection, it also facilitated the withdrawal of the indigenous world from commercial concerns.

Western commercial power rested to a considerable degree on intensive collaboration with immigrant Asian intermediaries – principally

[24] It is interesting to note that tax farming, an advanced type of revenue farming, was generally well developed in late Medieval Europe. In the sixteenth century the most important taxes in the Netherlands were all farmed out to the highest bidder at annual auctions. Jan Pieterszoon Coen, the founder of Batavia, would have been familiar with this kind of taxing. This might explain the immediate introduction of the revenue farm in the territories commanded by the Dutch (Reid 1993b).

Chinese, followed by Indian. At the local level Chinese and Indian enterprises had the advantage: overhead costs were low, long residence gave them an intimate knowledge of local conditions, most individuals spoke local languages and many married locally. Western enterprises were primarily located in urban centres and rarely established a presence in the rural hinterlands. Western business suffered from heavy overhead costs due to high salaries for expatriate European staff, imposing offices and residential accommodation. This ruled out the establishment of branches in distant places where business was modest. European staff often did not possess detailed knowledge of local commercial and agricultural conditions or of local cultivators necessary to conduct business on that level. Few commanded local languages, while many were frequently reassigned to new and unfamiliar areas. In addition, Europeans remained alien to local society (Brown 1997: 44; Kathirithamby-Wells 1993: 133–135).

In summary, from the mid-nineteenth century onwards Chinese and Indian networks provided the crucial link between local cultivators and the wider economy. Southeast Asia was thus linked to the Western economy by mutually dependent local European enterprises as extensions of the trading and financial networks of the West, and Chinese and Indian intermediaries who penetrated deep into the local economy. As a result Southeast Asia saw a pronounced ethnic separation of economic roles in which immigrant communities – particularly the Chinese – provided the core entrepreneurial skills, the commercial networks and the capital that ensured rapid economic growth in the region from the early decades of the nineteenth century (Brown 1997: 8, 44–45; Reid 1993b: 79).

### *Dutch-Chinese Partnership and Revenue Farming*

The economic alliance between the Chinese and the Dutch in Java proved to be long-lasting and extremely profitable. Cooperation between the two remained the only viable option for successful business (Kwee Hui Kian 2006: 76–96; Van Niel 2005: 101–120).[25] Revenue farming became the institutionalized form of this cooperation.[26] The revenue farm gave its owner

[25] In the popular imagination of Indonesians today the term *gandeng-konco* ('buddies arm-in-arm') is used with regard to the Chinese. They are seen as colonial accomplices with the Dutch in the past and with the Indonesian state at present to the detriment of the Indonesian economy and population. The myth of Chinese economic domination is still deeply entrenched in the mindset of Indonesians (Kwee Hui Kian 2006: 15, 240).

[26] The first farms were operational in 1620 – the year after the founding of Batavia – and were run by Chinese. By 1644 Chinese operated seventeen out of 21 revenue farms. Revenue farming constituted a major source of income for the VOC. In 1653 the farms represented

the right to collect specific taxes or to buy or sell valuable and easily monopolized commodities in a delimited area for a stated period. Specific sectors of the economy were thus allocated to the highest bidder at public auctions with the stipulation that a fixed amount in license fees be paid at set dates. Any additional amount collected could be retained by the farmer as a reward for his efforts (Diehl 1993: 199).

This exposed the government to a potential loss of income when a farmer failed to meet his obligations. To prevent this farms would be allotted to 'reliable' individuals, often Chinese. Economic power was thus taken from the Javanese aristocracy who could have posed a threat to the Dutch. This way, any acquired wealth was unlikely to be put into suspect political schemes. Chinese were also favoured because of their ability to establish syndicates (*kongsi*) with sufficient capital and expertise to ensure successful farm management (Kwee Hui Kian 2006: 76–96, especially 92–96). In turn, the Chinese realized that European rule offered relative security of property and the possibility of administering their own community without too much outside interference.[27]

The revenue farm was essentially a fiscal instrument accommodating the needs of a small colonial presence with little leverage, struggling to establish political authority. Revenue farms enabled weak states to survive and develop more efficient systems of revenue collection (Reid 1993: 79). From a revenue-generating perspective the opium farm turned out to be most successful throughout Southeast Asia. The Chinese-run opium farms also played a decisive role in colonial governance and empire building. Opium provided revenue crucial for the functioning and growth of the colonial state and its infrastructure, although there were variations in the dependence on this source of income for the different colonial budgets.[28]

Singapore relied most heavily on opium farms for revenue. For the entire century after 1819 opium generally averaged between 40 and 50% of total annual revenues. In French Cochin China opium was the largest revenue-generating operation for two decades. Between 1861 and 1882 the Saigon farm contributed about 30% of colonial revenues. In Siam the opium farm generated about 14% of total government revenue which by

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27% of total revenue collected in Asia by the company (Reid 1993b: 74–75; Niemeijer 2005: 70–77). Between 1760 and 1780 almost half of the company's income in Asia derived from tax farming (Kwee Hui Kian 2006: 77).

[27] See Cribb (2000: 184–187), Butcher and Dick (1993), Reid (1993b: 74, 78), Rush (1990).

[28] See Rush (1990), Foster (2005: 13), Trocki (2002: 298), Vanvugt (1995), Warren (1995: 60).

1905–06 had risen to almost 20%. By the 1880s opium revenues in India amounted to about 16% of total official revenues. The opium farms were less important in British Burma and the Philippines, but still generated significant revenues (Richards 2002: 377; Trocki 2002: 298; Visscher 2002: 27–29).

In the Netherlands Indies the situation was very similar. From the Dutch point of view revenue farming was highly rewarding, proving itself an inexpensive and simple means of raising official income. The Dutch only had to collect the due sums on a regular basis and did not need to appoint, supervise and pay costly officials to operate the monopolies. Accordingly, most of the money taken in by Batavia represented net profit. As a result a range of revenue farms operated in the Netherlands Indies throughout the nineteenth century. These included the selling of opium and salt, the operation of markets, slaughterhouses, pawnshops and gambling establishments, the management of ferries, tollgates and lift-locks, the right to hold *wayang* performances in Batavia as well as the right to the produce of the 'Thousand Islands' (*Pulau Seribu*) off the coast of Batavia and finally the gathering of birds' nests for export to China (Fokkens 1992: 58–59; Williams 1960: 24).

Between 1826 and 1895 revenue from all farms in the Netherlands Indies contributed on average 22% of total state revenue (see Table 4.1). For seven decades one-fifth to one-quarter of colonial revenue thus derived from the successful operation of revenue farms. Opium was of crucial importance in this achievement since the results from the different opium farms accounted for the greater part of total farm revenue with the percentage climbing from about 60 to 80% and higher in the aforementioned years. During the period 1877–1895 opium revenues alone accounted for approximately 18% of total revenue. With the demise of revenue farming after the second half of the 1890s, these stunning percentages started to dwindle and soon became insignificant.

The identification of the Chinese with the revenue farming system was common throughout Southeast Asia. In the case of the Netherlands Indies the influence of Chinese tax farmers can be gauged from the following figures. In 1870 3,574 Chinese were recorded as active in tax farming in Java. In 1890 this number had grown by almost 40% to 4,886. Most adult Chinese males (i.e. over the age of sixteen) employed in tax farming were found in Central Java, the region with the highest opium consumption. In Solo and Madiun approximately 17% of the Chinese workforce earned a living in activities related to tax farming. In the Outer Provinces another 1,990 Chinese were involved in tax collection on behalf of the colonial

administration. The total number of 6,876 Chinese engaged in tax farming exceeded the 6,087 Dutch civil servants employed in the colony towards the end of 1890. To keep revenues flowing this small body of Dutch government employees had no choice but to rely on Chinese tax farmers as well as unsalaried indigenous officials to collect taxes that had not been farmed out.

From a material perspective, the Chinese (farmers) profited (enormously) from this situation, but there was a serious downside. Chinese dominance of the revenue farms not only identified them with economic power, but also contributed significantly to virulent anti-Chinese feelings (Kwee Hui Kian 2006: 160–164). In order to see a profitable return on his investment the farmer needed to establish a high rate of turnover. Not only did he have to pay the substantial instalments on a regular basis, but he was responsible for the costs of enforcing his monopoly rights. Administrating any tax or product was a complicated and expensive task, making it harder for the farmer to break even (Rush 1990 : 57–63, 80–81;

Table 4.1. Colonial finances of the Netherlands Indies, 1816–1925 (in millions of guilders).

| | | Revenue farm income | | | | |
|---|---|---|---|---|---|---|
| | Total state revenue[1] | Total farm income | x | Opium farming | y | *Opium Regie*[2] |
| 1816–1825 | 179.6 | 27.6 | (15%) | 14.8 | (54%) | |
| 1826–1835 | 265.2 | 51.3 | (19%) | 31.3 | (61%) | |
| 1836–1845 | 392.1 | 105.2 | (27%) | 65.4 | (62%) | |
| 1846–1855 | 394.5 | 102.3 | (26%) | 63.9 | (62%) | |
| 1856–1865 | 550.3 | 124.1 | (23%) | 96.6 | (78%) | |
| 1866–1875 | 709.0 | 127.7 | (18%) | 103.5 | (81%) | |
| 1876–1885 | 942.3 | 191.7 | (20%) | 158.3 | (83%) | |
| 1886–1895 | 1003.9 | 228.4 | (23%) | 182.1 | (80%) | 0.4 |
| 1896–1905 | 1155.7 | 138.5 | (12%) | 99.9 | (72%) | 58.5 |
| 1906–1915 | 1932.5 | 55.5 | (3%) | 21.6 | (39%) | 191.1 |
| 1916–1925 | 5596.7 | 8.2 | (0%) | – | | 327.2 |

x = total revenue farm income as a percentage of total state revenue
y = income from opium farming as a percentage of total revenue farm income
[1] collected in the Netherlands Indies
[2] The government controlled *Opium Regie* came to replace the privately operated opium farms in 1904 after a transition period of several years.
Source: Diehl (1993: 198–199, 203, 206), Fernando and Bulbeck (1992: 84–85).

Williams 1960: 24–27). The public image of the revenue farmers suffered badly from this dependence on small profits and quick returns. They appeared greedy and exploitative and as a result came to be loathed, if not hated.

This negative view of Chinese business extended itself to the activities of Chinese hawkers roaming the Javanese countryside. Going from door to door, selling consumer articles and buying up agricultural produce, Chinese petty traders successfully penetrated Java's interior. In a society short of cash their business was conducted on the basis of short-term credit with corresponding high interest rates. As a result the Chinese gained a reputation of behaving like leeches, sponging on the poor indigenous population.

In the course of the nineteenth century this kind of trade came to be regarded by the Dutch as highly detrimental to the Javanese peasant. Images of usury and extortion soon became part of the collective memory.[29] Generalizations of this kind proved ineradicable despite the fact that any itinerant trader – regardless of ethnic background – would have been obliged to calculate sharply and seize every opportunity in order to carve out an existence for himself and his family. Being a relative outsider the Chinese itinerant trader was unable to draw on the support and sanction systems of local society and could not always adopt a lenient attitude when collecting outstanding debts. Under these circumstances the only way to sustain himself was by the accumulation of many tiny profits through high interest rates (Wertheim 1994: 67, 160–161; Fromberg 1926: 407–408).[30]

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[29] The Chinese in Southeast Asia have often been compared to the Jews in Europe and parallels with anti-Semitic attitudes and behaviour have been drawn repeatedly. See Chirot and Reid (1997) for a historical comparison of the position of the Chinese in Southeast Asia and the Jews in Central Europe. In the same publication Takashi Shiraishi (1997) traces the historical roots of anti-Sinicism in Java.

[30] This analysis touches upon the tradition of anti-Chinese violence in Indonesia (Mackie 1976). As members of a small ethnically distinct minority Chinese in Indonesia have repeatedly experienced violence. According to Purdey this violence has often coincided with social, political and economic change at the national level, but it can also be driven by local concerns and conflicts. Scholars use theories of economic competition and political manipulation to understand the perseverance of anti-Chinese violence. Many argue for the centrality of economic competition/exploitation or jealousy as an explanation of the violence. However, the methods within Indonesian society to stir up anti-Chinese sentiments have been more varied and include religion, tribalism and nationalism (Purdey 2005: 24–37).

### *The Economic Position of the Chinese under Scrutiny*

The leverage of the colonial bureaucracy greatly increased during the nineteenth century (Dick et al. 2002: 59–61). The Java War (1825–1830) strengthened Dutch political authority and before long the rationality of farming out tax revenues was questioned. This was partly due to the availability of more information concerning the colonial finances as published in the annual *Koloniale Verslagen* (Colonial Reports) after 1849 (Van Baardewijk 1991: 22–28). Awareness of colonial affairs became better when the *Comptabiliteitswet* (Accountability Act) of 1864 required the colonial budgets to be approved every year by the Dutch parliament (Diehl 1993: 200). With budgetary deficits plagueing the colonial administration the income from revenue farms still remained necessary and the system was maintained despite mounting opposition. Besides, during the latter half of the nineteenth century the Dutch state depended significantly on the *batig slot* or 'positive balance' policy, i.e. the income derived from the Netherlands Indies.[31] (See also Chapter 2, Note 21).

Over the years the attitude of the Dutch administration towards the Chinese became decidedly negative. Dutch officialdom focused above all on reported excesses which were attributed to the anomalous position of Chinese business. As early as the 1850s Chinese activity was considered conspicuous and accused of endangering the welfare of the indigenous population.[32] According to military officer W.A. van Rees: "Without the Chinese we would have been in want of many things, and still we abhorred those dog-eaters." (Van Doorn 1996: 25).

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[31] Colonial profits were considered a structural financial asset, but the effect of such profitable colonial exploitation on the indigenous population did instil a sense of guilt. Between 1865 and 1900 the so-called 'colonial drain' was increasingly questioned. Another substantial 'drain' of colonial profits was directed towards the originating countries of population groups, such as the Chinese (Dick et al. 2002: 151; De Jong 1989; Van der Eng 1993b and 1996: 92). The importance of the Netherlands Indies to the Dutch economy after 1870 appears to have been of a different order. Although the Dutch economy benefited, it was far from dependent on the colonial relationship (Van der Eng 1998). See also Pomeranz (2000: 186–188) and O'Brien (1982 and 1990) for the issue of overseas (coercive) extraction and economic development.

[32] Evidence of this can be found in several articles quoted in Chapter 2, Note 58. See also the article published in 1851 by L. Vitalis: 'Over de pachten in het algemeen, de onzedelijkheid van sommige, en de verdrukking waaraan de overmatige misbruiken van andere de Javaansche bevolking blootstellen' (Vitalis 1851: 365–386). An abbreviated translation of this article in English ('Concerning the revenues farms in general, the immorality of some, and the oppression to which the Javanese population is exposed due to the excessive abuses of others') can be found in Fernando and Bulbeck (1992: 26–42).

From the 1870s the opposition to revenue farming in general and the opium farm in particular started to gain momentum. Recognition of the system's deficiencies, especially its high corruptibility, was accompanied by a growing fear of the Chinese dominance in operating it. The magnitude of Chinese commercial influence becomes evident when looking at the following figures. In 1892, the Chinese in Java were in possession of 45% of land that could be legally owned, which included 63% of all private estates, while 31% of buildings and premises on lands not privately owned belonged to them as well. They owned 22% of all shipping tonnage registered in the colony, 18% of the sugar mills operating under contract with the government, 34% of voluntary agricultural labour contracted with the indigenous population, and 26% of the contracts for the transport of salt and government goods. The Chinese as a group paid 38% of the personal tax collected in Java, 22% of the business tax and 38% of a special tax for owning property on leased land. In addition, the Chinese accounted for 26% of the value of imports and about 12% of the value of exports (Diehl 1993: 200–202).

It was realized that some Chinese offered serious competition to Europeans. Much of the resulting unease found expression in condemnation of the Chinese as a group. They were labelled 'a cancer', 'true vultures', 'hyena's, or just plain 'scum' (Van Doorn 1996: 154). According to one observer some civil servants thought that persecuting the Chinese amounted to protecting the *Inlander*. Although the Chinese remained indispensable as revenue farmers and so-called 'funnels of trade', it was always with the waspish remark 'for the time being'. Accusations of rapacity by Chinese traders and money-lenders peaked in this period. Tolerated only for bridging the gap between Europeans and *Inlanders*, it was claimed that their admission to Java's interior should be subjected to sharper restrictions. Since they were foreigners, they had to submit themselves unconditionally to the laws of the predominant race. For some it was actually a favour that they were allowed to stay in the Netherlands Indies at all (Fromberg 1926: 406).

Critical commentators – the vociferous Dutch press and members of the Dutch parliament in particular – called upon the government to change its policy and adopt a more aggressive stance against Chinese commerce in general. Unable to resist this pressure a large-scale government inquiry into the economic position of Foreign Orientals in Java and Madura was ordered in 1892. The final report of F. Fokkens was submitted in 1894, but its proposals were not endorsed by the government and never put into practice. The massive manuscript disappeared into the archives

of the Ministry of Colonies and soon sank into oblivion (Fernando 1992: 43).

### *The 'Opium Kwestie'*

The unfortunate fate of Fokkens' solid report does not do justice to its rich and informative content. Containing more than a thousand folio pages, it is a rich source on the participation of Chinese, Arabs and other *Vreemde Oosterlingen* (Foreign Orientals) in the economy of Java and Madura towards the end of the nineteenth century. It also shows the dilemma's Dutch policy makers faced in dealing with this section of the population. Although most would have welcomed a reduction of the Foreign Orientals' 'harmful' presence, there was the recognition that they occupied a key position within the colony's economic structure. Their business operations sometimes had to be encouraged in order to prevent the economy from grinding to a halt. All of this was grudgingly conceded, but only within certain strictly enforced limits. However, opinions differed greatly as to the extent of these limits and how to impose them. The Fokkens report bears witness to this lack of unanimity. An analysis of this investigation shows the complexity of the issues and the extreme diversity in local circumstances.

The inquiry was officially announced on 9 August 1892 by the Minister of Colonies, Willem Karel Baron van Dedem.[33] W.P. Groeneveldt, a Chinese-language expert and a respected member of the Indies Council, was assigned this prestigious task. Both men had intimate knowledge of the situation in Java and had shown themselves critical observers of Dutch colonial policy. On more than one occasion they had expressed their belief in the need for reform. Van Dedem in particular had actively participated in the public discourse in the Netherlands by proclaiming a moral obligation or 'Debt of Honour' towards the Javanese population. Both men were therefore well suited to take this controversial task upon themselves (*Encyclopaedie Nederlandsch-Indië* 1896: I 429–430, 603; Van Gennep 1895: 318–320).

Initially, Van Dedem and Groeneveldt had focused their attention on the so-called *Opium Kwestie* ('Opium Issue') which became acute in the late 1880s and was tied to the revenue farming system and its Chinese management. Echoing in all of this was the impact of the crisis of 1884, and its negative effects on the rural economy of Java which peaked in

[33] NA/MIKO 5037, V 17-04-1896, No. 27.

1887 and 1888. With low prices for cash crops the rural population retreated from the marketplace and fell back on a system of self-sufficiency with rice as its basic staple. As a result money became scarce and the purchasing power of the Javanese peasant experienced a free fall (Djoko Suryo 1982: 217–218, 224–225, 227, 232). This seriously affected the financial health of the tax farms, more in particular the opium farm. By 1889, only four out of nineteen opium farms had survived the depression in the countryside and farm debts to the state already surpassed *f* 3,000,000,-. In 1893 outstanding debt approached almost *f* 6,000,000,-, most of which the Dutch government was forced to write off (Rush 1990: 182–183, 186, 189).

L.W.C. Keuchenius, who was appointed Minister of Colonies in April 1888, denounced the Chinese opium farmers:

> I view them as an evil which must temporarily be endured, but which in truth is even more than opium itself a cancer upon the native population.[34]

By now, the image of the Chinese farmer as a supporter of the government had crumbled. Keuchenius viewed them as businessmen who had to pay up, and in case of non-payment should be forced to do so "without delay and without consideration" (Rush 1990: 186). Failing to meet their government obligations and leaving huge unpaid debts, the Chinese farmers lost their credibility. Dismayed the government started to reconsider the wisdom of entrusting part of its future income to private individuals.

The dismantling of the farm system was accelerated by a Sinophobe attack on the opium farms in the media. The Chinese became the perfect scapegoat in order to rationalize the pressures caused by the mid-decade depression. The visible impoverishment of the indigenous population during the 1880s, the resulting increase of small-scale local rebellions, and rising violence in cases of theft or burglary created a growing fear. Lawlessness manifested itself in wandering bands of marauders (*kecu*-gangs) in the countryside and the incidence of mob rule in urban areas. These occasional outbursts added significantly to a general sense of insecurity (Sartono Kartodirdjo 1966; Djoko Suryo 1982: 262, 269, 270–277, 282–285). This was exacerbated by an influx of poor Chinese immigrants which fed the belief in a 'Yellow Peril'. Due to the crisis, society failed to absorb these newcomers. This created a volatile situation as seen in Yogyakarta in November 1889. Here, newcomers pillaged the house of the Chinese captain who had tried to curb unwanted competition in the area.

[34] Quoted in Rush (1990: 186).

The ill-treatment and manhandling of some of their compatriots sparked the violence and the captain's crude efforts to protect his cut in the opium farm backfired (Rush 1990: 196; Tagliacozzo 1999: 261–262).

These and other tensions received excessive media coverage. The once strongly endorsed opium farms were not able to withstand the pressure of economic uncertainties, social change and public scrutiny and became ever more obsolete.[35] The final blow came with a revived reformism which drew strength from the heightened public attention. Already reform-minded spirits had criticised the exploitation of Java, singling out the opium farms as the most visible instrument of abuse. However, until the crisis their pleas had been largely disregarded. Since the beginning of the nineteenth century Java was viewed as a *wingewest* (area of exploitation). This policy was endorsed in the *Regeeringsreglement* (Government Regulation) of 1854 which constituted the basic law of colonial governance. Challenging this basic element of state rule required the build-up of strong pressure by oppositional forces.

It was Van Dedem who first raised the subject in the Netherlands. Having practised law in Semarang from 1864 till 1872, he entered politics upon his return to the Netherlands and started to question Dutch opium policy (Colenbrander and Stokvis 1916–1917: I 136). Van Dedem challenged the idea that there were no viable alternatives for the farm system. After entering Parliament in 1880 he started pressing for a thorough investigation of the Dutch opium policy. Minister of Colonies Willem Baron van Goltstein reluctantly ordered such an investigation which resulted in a detailed report as late as 1888. Although acknowledging the need for reform, its recommendations basically upheld the farm system. However, by now support for the farm system had become politically inopportune (Rush 1990: 166–167, 199–201).

In a string of articles, pamphlets and books the opium farm system was vehemently attacked and became nearly indefensible towards the end of the decade.[36] It was considered reprehensible and immoral of the government to make profits from selling an intoxicating substance, the

[35] Commercial interests generally viewed any kind of monopoly as harmful to free enterprise or trade. Plantation owners complained about a demoralized labour force because of drug abuse. Liberal politicians started to talk about the repayment of a 'debt of honour' and the responsibility of 'elevating' the indigenous population. Enlightened civil servants expressed growing concern about the contribution of opium to the impoverishment of the population (Diehl 1993: 200–201). See also Chapter 5, Paragraph 'Ethical Policy'.

[36] See Salmon (1991b) for a rare Chinese critical view of the opium farm written in 1889.

consumption of which added to the misery of the population. The opium den became the incarnation of the evil Chinese presence. I. Groneman called it: "that spider's web of our pernicious ally, who like a gigantic spider lures and traps the poor Javanese, then seizes him, clutches him and binds him and sucks him until he is tortured to death." M.T.H. Perelaer, one of the most outspoken enemies of the opium farm, appealed fo a "RELENTLESS WAR!" against the opium farm, "[…] that scandalous source of income […]". In his novel *Baboe Dalima*, the Chinese were portrayed as hideous, mean and extremely unpleasant. Their physical appearance and accent were most discomforting. Even their shoes were found disagreeable, for their footwear was "weirdly bowed, heavy and ponderous."[37]

Others cast their net wider in denouncing the Chinese presence overall. Chinese opium farm agents, pawnshop operators, petty traders and loan sharks all drained the rural economy and poisoned village society. P.A. Daum saw all this within the context of industrial progress in the following scene in his novel *Goena Goena*:

> Where only rice fields used to be, now waved the elegant plumes of sugar cane; where tall coconut palms once represented 'the highest good' they were now humbled by towering white factory stacks which never, day or night, stopped sending up clouds of smoke from their black openings. And straight through the once unspoilt field there were endless rails, here rusty, over there glistening dully from friction in the fierce light of the sun. Money had been introduced to the population, and with the white 'filthy lucre' another 'filth' had arrived. Near the rail stations lived the Chinese and Arabs who were now in business, had opened warongs, smuggled opium, ran gambling houses; this was the field train of Western civilization in the East.[38]

Alluding to the racial fear of a 'Yellow Peril' other commentators focused the attention on mainland China where they imagined mandarins lurking in the background, patiently awaiting their chance (Godley 1981: 60–78). N.J. Struick would write in 1889 that China could no longer be disregarded. "Today it sends off its representatives to investigate the situation of its countrymen in the possessions of European powers. Tomorrow come the consuls. Thereupon it will promote the legal equality of the Chinese and European inhabitants. And where will it end?" (Rush 1990: 204; Yen Ching-Hwang 1985). The Chinese opium farmers had clearly become a political liability. The once carefully nourished and highly profitable business

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[37] Evers (1984: 78–82), Evers (1986), Rush (1990: 201–203), Widjajanti Dharmowijono (2000: 1–2, 4).

[38] See Daum (1998: III 10), Beekman (1996: 325–326).

connections between the Dutch and Chinese elite had become a burden and were in urgent need of replacement.

An alternative form of opium distribution was eagerly sought and appeared to be found in Cochin China. In 1881 the French had implemented the *Opium Regie* (Opium Regime), a scheme directly managed and staffed by the colonial administration itself (Rush 1990: 201, 209–213).[39] In 1889 Groeneveldt was appointed by Minister of Colonies Keuchenius to study this program for which he travelled to Cochin China early 1890. He questioned whether the farm system could ever accommodate the ethical and fiscal goals of the government and came up with a negative answer. In August 1890 Groeneveldt submitted a report favouring a *Regie* and radical institutional reform.

Groeneveldt offered a balanced view by judging the opium question as a matter of policy without indulging in feelings of guilt or racial prejudice. This did not go unnoticed. His viewpoints received even more attention since they indicated the possibility of securing higher opium revenues without the farms and the Chinese. This must have been music to the ears of Dutch policymakers, who were increasingly inclined towards government controlled opium production and distribution. In 1893 the first experiments with such a scheme commenced in Batavia and the final approval followed in 1897. This signalled the end of the opium farms throughout Java (Rush 1990: 209–210, 213–214; Van Luijck and Van Ours 2001: 7, especially note 16).

The government set up its own distribution system selling to registered users only through a network of government shops (Cribb 2000: 138–139). In 1904 Java was entirely serviced by this system. A government plant in Batavia – situated ironically between a hospital and a pawnshop – replaced the local farm-run opium factories and manufactured opium products of uniform taste and quality to which a neutral chemical was added in order to distinguish legal from illegal opium. Erected to right past wrongs, the *Opium Regie* expressed concern for the spiritual and material welfare of the indigenous population and aimed to reduce the use of opium.[40] However, the system turned out to be very profitable and contributed more to the state coffers than the morally detested farms.

[39] This constituted a government monopoly which controlled imports, refining, and retailing (Van Luijck and Van Ours 2001: 1; Butcher 1993: 44).

[40] The *Opium Regie* has been labelled one of the first fully developed institutions of Java during Ethical Policy (Rush 1990: 218).

The sale of opium constituted an important source of income for the government, accounting for almost 16% of colonial revenue in 1905 – i.e. *f* 20,25 million – when sales in most residencies equalled or surpassed those of the opium farms.[41] Producing and selling opium remained a booming business and large profits continued to stream in during the 1910s and 1920s.[42] Over the period 1914–1929 the revenue from opium ranged between 32.6 and 52.6 million guilders. (Opium revenue relative to total revenue did decline steadily from 13.5% in 1914 to 5.3% in 1929.) The *Opium Regie* turned out to be extremely profitable with a profit margin between 76 and 80%. In other words, for every guilder of cost incurred by the *Regie* between three and four guilders in profit were made (Chandra 2000: 103–105, 107; Rush 1990: 218–219, 226–227, 236–237).[43]

### *W.P. Groeneveldt: An Articulate Spokesman for the Chinese*

Groeneveldt had earned his credentials as a specialist in Chinese matters. The favourable reception of his 'Opium recommendations' however boosted his reputation. He had shown himself to be an efficient researcher, able to work with tight schedules and outside pressure. Van Dedem, who became Minister of Colonies in 1891, appointed Groeneveldt on several occasions. When he accepted the investigation into the economic position of the 'Foreign Orientals' Groeneveldt was in the midst of a follow-up of his opium report at the request of Van Dedem. He was also given two supplementary tasks. First, he was asked to advise the government on the replacement of the remaining tax farms, which allowed Chinese to travel in the interior, with a system of direct collection by the state. Second, over time it had become more difficult to appoint suitable Chinese officers and an overhaul of the existing system of Chinese

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[41] Notwithstanding the fact that the price of *Regie* opium was high when looking at the neighbouring countries. In 1903 it was ten times the price of opium in Singapore. Under these circumstances smuggling was rife and illegal opium was easily obtainable in Java on the black market.

[42] In December 1910, when reviewing the positive monthly results of the *Opium Regie*, an official in The Hague wrote that he despaired for the working of the *Regie* as he saw no indication whatsoever that anyone was striving to reduce the use of opium (Rush 1990: 237, 241).

[43] The Dutch opium policy in the Netherlands Indies after the abolition of the revenue farms has been the subject of debate. According to Van Luijck and Van Ours the replacement of the old system by the *Opium Regie* substantially reduced opium consumption. This conclusion is criticized by Chandra who maintains that the new regime was extremely lucrative and that the government, contrary to its stated aims, did little to use these profits to eradicate the problem of opium addiction. See Van Ours (1995), Chandra (2000), Van Luijck and Van Ours (2001).

governance seemed advisable for which Groeneveldt's expertise was deemed necessary.

Groeneveldt conducted these four investigations throughout late 1892 and the early months of 1893. Though pressed for time he did not merely present excerpts of information delivered to him or otherwise available in the archives. Between September 1892 and March 1893 he made three journeys of approximately four weeks each to the residencies of Java and Madura where he consulted with the heads of the European and the indigenous administration and many other civil servants. Groeneveldt collected information and left instructions for additional research: a thirteen page questionnaire in which he stated his aims and ideas regarding the research.

Groeneveldt intended to record the economic position of the Foreign Orientals, but focused above all on the consequences arising from their presence in the colony and their impact on the indigenous population. He acknowledged the negative image of Chinese and Arabs among Europeans which he attributed mainly to ignorance. More often than not public opinion was based on inaccurate generalizations rooted in bias and prejudice. Groeneveldt explicitly referred to the repeated manifestation of envy and racial hatred which prevented "a lot of good" (*veel goeds*) from being noticed. An accurate account of the economic activity of Foreign Orientals emphasizing their dealings with the indigenous population was therefore of great importance.

Groeneveldt collected as much statistical data as possible, since it was his belief that conclusions could only be drawn from detailed information. He showed himself to be moderate in his views which were underlined by the following principles. These stressed the government's obligation to protect the indigenous population, but only if they had proved themselves incapable of doing so. After all, state-sponsored protection of one group of society would curtail certain rights and could thereby harm the interests of other societal groups. In addition, unforeseen consequences could impair the interests of those being protected in the first place. Besides, as residents of the Netherlands Indies the Foreign Orientals enjoyed the inalienable right to a fair and even sympathetic treatment. They should not be persecuted with restrictions unless the need for protection was absolute and the beneficial effect of the intended measures was sufficiently ensured.

Groeneveldt emphasized the need to proceed with great caution in order not to sacrifice fairness to imaginary dangers. He pointed out that general measures would not simply redress the mischief caused by a

single individual but affect many others as well. To combat any bias Groeneveldt's questionnaire contained 22 questions of which thirteen asked for specific statistical information, such as population, tax, occupation and movement figures. He also made sure to put attention to the complexity of the issue in order to counter the usual Sinophobe generalizations.

Groeneveldt did however object against the free movement of Foreign Orientals in the countryside, claiming that it had caused the almost universal indebtedness of the indigenous population. By stressing the scale of credit transactions – conducted mainly by Foreign Orientals – and their supposed negative consequences, he argued that their access to the *desa* should be restricted. The movement and settlement restrictions ought therefore to be reconsidered if the indigenous population was lured into borrowing money. But restriction could also cause great inconvenience to villagers. The distributive as well as the collecting trade could suffer. It would make a great difference if life's necessities had to be bought far away or whether they were sold door to door. This mattered even more in case of the sale of indigenous (agricultural) products. Groeneveldt argued that those who could wait for the buyer at home were in a better position than those who could not. If the offer was not good enough, it could be declined in the knowledge that another buyer would pass by the next day. If products had to be packed and brought to the *pasar*, people would avoid carrying them home and accept an offer that they would otherwise have refused. In addition, there was the possibility that buyers in the market place would conspire in keeping prices artificially low.

Groeneveldt remarked that borrowing money in itself was not proof of insolvency. Within an agricultural society income and expenditure are not distributed evenly throughout the year and credit transactions are needed to bridge the gap between the two. Since no banking system existed within the colony allowing the peasant to borrow small amounts of money against a moderate interest, he was forced to turn to private moneylenders. The latter, usually of Chinese origin, would provide the necessary cash against high interest. Over the years this feature had attracted most attention and fierce accusations of usury. Groeneveldt indicated that the high interest rate should not arouse people's indignation too much. His argument focused on the customary high interest rate of indigenous society. Pawnbrokers for instance charged 6% a month even against full security. The security of loans without collateral was so doubtful that the high interest rate naturally included an insurance premium against total loss.

Peasants thus had to allocate a disproportionate part of their income in order to satisfy credit needs which hindered economic development. How to improve this situation? Groeneveldt himself expected little from restrictive measures. Where credit transactions fulfilled a specific need prohibitions would almost surely be circumvented. The peasant short of cash would always manage to satisfy his credit needs, but not without the additional cost of rising interest rates. Obtaining credit should therefore be made cheaper, although Groeneveldt admitted he did not to know how to achieve this. Still, repressing the economic activity of Foreign Orientals would not be a solution. Chances were that the investment of capital within the colony, of great benefit to all, would be forced abroad as Chinese and Arabs sought more profitable outlet elsewhere.

Groeneveldt sent his memorandum to all Residents in Java and Madura in May 1893, but was unable to finish the investigation as he was appointed vice-president of the Indies Council a few months later. On 25 July he sent Governor-General C. Pijnacker-Hordijk his preliminary conclusions, but would continue to show an active interest in the Chinese situation.[44]

Groeneveldt concentrated his closing remarks on three issues: the admission, settlement and movement of Foreign Orientals. First, he recommended regulations on the admission of Chinese and Arabs in the colony be tightened. So far, they were admitted to the colony for a period of six months, after which they had to proof their means of existence. However, many never applied for a residence permit after the expiration of their legal stay. Thus they escaped the supervision of the authorities and had to earn their keep illegally. This reduced the competitiveness of their fellow countrymen, resulting in a stream of complaints by Chinese entrepreneurs. Groeneveldt also considered these newcomers detrimental to the indigenous population, victims of their shrewd and cunning business methods. The influx of immigrants should therefore be opposed and only those needed ought to be admitted.

The second issue, the settlement of Foreign Orientals did not give rise to many problems. The existing restrictions were reasonably effective, although temporary permits were used as a pretext for permanent settlement. There were two exceptions. First, complaints were made against Arabs because of their highly speculative money lending practices. Their Islamic religion added to their prestige, allowing them to exploit the indigenous population even more ruthlessly. Second, the tax farms – more

[44] *Nieuwe Rotterdamsche Courant* (*NRC*) 13-03-1897; *SH*, 03-05-1897; *Insulinde*, 15-06-1897: 186.

specifically the opium farm and the slaughter farm – permitted scores of Chinese to settle in the countryside which facilitated easy access to indigenous society. Collecting Dutch revenue even required them to establish close contact with the indigenous population. The only way to avoid this would be by abolishing the farms entirely.

Groeneveldt was most critical regarding the third matter, the movement of Foreign Orientals. He shared the general sentiment that free movement in the *desa* ought to be restricted. Protecting the villager by curbing the Chinese presence in Java's interior remained a necessity. The existing Pass System however was far from effective. Groeneveldt strongly criticized the fact that the provisions of the system were no longer uniformly applied and had become subject to all kinds of exceptions. He especially regretted the arbitrary treatment of the Chinese, which was justified by the regulations of the Pass System. In several districts the restrictions had become "a true torture" (*eene ware kwelling*) which impeded legal and honest trading. If someone's reputation failed, he would be denied a pass and be virtually interned. To prevent this kind of misuse, Groeneveldt was in favour of a complete overhaul of the Pass System.

Still, it would be better if root causes were addressed. The indigenous population should be given the opportunity to acquire credit at a lower rate than prevailing. This would most effectively counter the negative influence of the presence of Foreign Orientals, whether Chinese or Arab. However, the feasibility of such a scheme remained to be seen. The outcome of Groeneveldt's discussions regarding new credit measures was not encouraging in this respect.

### *F. Fokkens: An Ethically Inspired 'Javanenvriend'*

On 26 August 1893 the civil administration appointed F. Fokkens as Groeneveldt's successor. Fokko Fokkens had been in Java since 1874 where he had assumed his career within the Dutch administration as *aspirant-Controleur*. He was made *Controleur 1e klasse* in 1885, and given special assignments which made him an expert in matters relating to the (land) rights of the indigenous population. In 1889 Fokkens was promoted to *Inspecteur der Cultures* and carried out an extensive investigation on the compulsory labour service. After Fokkens took over from Groeneveldt he was given the rank of *Resident*, a status more in accordance with this prestigious investigation.[45]

[45] See *Encyclopaedie Nederlandsch-Indië* (1896: I 528), Fokkens (1875), Ralph (1901), [Benoeming] (1901: 370–375).

The project acquired a new and different perspective. Fokkens had studied the Javanese language as well as its culture and was committed to the well-being of the Javanese population. This would eventually earn him the title of '*Javanenvriend*' in which he seems to have taken pride (Ralph 1901: 13). As a 'friend of the Javanese' Fokkens was a representative *avant la lettre* of the ethical policy of the next decade. His resume contrasted sharply with Groeneveldt's and he was far less favourably inclined towards the Chinese.

Fokkens found himself in the unenviable position of taking over a half-finished project. After noting Groeneveldt's ideas, he did not waste any time in continuing the investigation. Fokkens was given nearly all of his predecessor's workload, and also had to advise the government on the reform of the tax farm as well as the Chinese officer system. In September 1893 Fokkens travelled to Central and East Java where he met Dutch civil servants and representatives of the Foreign Orientals. During this trip he went to several Chinese quarters where he was shown around and given information firsthand. Upon his return Fokkens completed the report regarding the organization of Chinese governance and then drew up a proposal concerning the replacement of the tax farm by a government managed system. Both memoranda were presented to the newly appointed Governor-General C.H.A. van der Wijck on 31 January 1894 and 1 March 1894 respectively.

Fokkens could now devote all of his time to the inquiry into the economic position of the Foreign Orientals. The replies to Groeneveldt's elaborate questionnaire were received by Fokkens between November 1893 and February 1894. After studying this material Fokkens spent March 1894 travelling across Java, interviewing people, asking them to clarify matters, or answer remaining questions. Upon his return to Batavia in April he analyzed the information. In September 1894 he presented the Governor-General with a voluminous report of about one thousand hand-written folio's.

In it Fokkens described almost every aspect of the economic life of the Foreign Orientals in the Netherlands Indies: the historical development, legal framework, population growth, commerce, tax farming, landownership, money practices etc. Statistical information supplied covered the ten-year period 1883–1892. Although Fokkens more or less adopted the preliminary conclusions of his predecessor, he did follow a different line of argumentation. Like Groeneveldt he attacked the administration for its arbitrary treatment of the Chinese, albeit less out of sympathy and more out of anger for making a mockery of good governance. He maintained

that the indigenous population only stood to gain from a clear-cut and uniformly upheld legal system. However, growing lack of commitment within the colonial administration had made regulations prone to personal preferences and ambitions, offering the Chinese more opportunities to bend the rules since they possessed a stronger power base.

However, this power base had been weakened since the economic crisis of the 1880s. Growing impoverishment and approximately 30,000 immigrants in the period 1883–1892 had put the Chinese trading system under strain. The increased competition among Chinese traders led to excesses to which the colonial bureaucracy had responded with tightening and arbitrary regulations. Chinese society had less room to absorb or divert these decisions as the support of their leaders diminished because of lower revenue farm returns. Movement restrictions became the most pressing problem as troublesome pass regulations prevented a swift response to deteriorating trading opportunities.

Fokkens knew the importance of Chinese petty traders for the survival of the indigenous population, since the latter had come to depend on them for the sale of their agricultural produce. Overzealous interpretation of the pass regulations threatened to interrupt this. In many instances the Chinese were no longer allowed to travel without a pass outside their place of residence, although the original provisions allowed Foreign Orientals to travel without a pass in their own district. Outright abuse was reported in many districts where passes were being refused if tax payments had not been fulfilled, even though the approved term had not been exceeded. Passes were also being refused – often for life – to those having committed a criminal offence. Being suspected of a misdemeanour was often enough. Passes were sometimes issued in red ink which branded its owner as suspect. In Yogyakarta and Juana (alleged) 'smugglers' were punished this way, whereas in Rembang normal passes were stamped with a big red S(muggler). The so-called '*Pas Api*' issued in Kudus can serve as a final example of the ridiculous movement limitations Chinese had to face. This pass required every Chinese in Kudus to walk with a light in the evening. Exemption could only be obtained by contributing *f* 1,- a month to the municipal street lighting. This took the form of a pass reading:

> Yang tarok tanda tangan di bawah ini, assistent-resident Koedoes, idzinken pada orang tjina bernama [...] malem djalan di dalem Kota Koedoes tida bawa api.
>
> He who has placed his signature below, the assistant-resident of Koedoes, permits the Chinese by name of [...] to walk at night within the city of Koedoes without carrying a light.

Fokkens spoke out against these and similar measures which served no real purpose and came close to extorting money from the Chinese. He asserted that, for the moment at least, Chinese traders were indispensable. They actually exerted a positive influence on petty trade, provided they were not allowed to operate in large numbers. For example, before Chinese received permission to visit the markets in the Lebak area in East Java, trade was monopolized by a few Sundanese who sold their ware with a profit of 300 to 400%. This "astonishing misuse" of their position was counteracted with the settlement of a few Chinese whose competition caused prices to plummet much to the benefit of the rural population. Fokkens supported this argument by giving a few examples. After the Chinese traders had set up their business the price of petroleum had decreased fivefold from *f* 20,- to *f* 4,-; a box of soap once sold for *f* 12.50, could now be purchased for *f* 1.50; syrup at *f* 1,- a bottle had come down to *f* 0.30, etc.

Fokkens acknowledged the crucial position of Chinese intermediary trade and appreciated its positive traits. According to him Chinese in general combined a trading spirit with a sense of frugality and the courage to invest. These values were supported by a propensity for capital accumulation, a solid command of business (above all credit and money transactions) and a keen sense of customer taste. Given the fierce competition, their turnover depended on a profound knowledge of the market, as well as a talent for predicting its future course, and insight into the kinds of merchandise in demand.

Fokkens' analysis of the Chinese and Arab trading mechanism demonstrated the hierarchical structure of the trading business and stressed the difference between wholesalers and retailers, subdividing the latter into descending categories, i.e. the so-called 'second hand', 'third hand', etc. Fokkens even discerned a fifth hand before goods finally reached the consumers. Interestingly, Fokkens' survey showed that in 1892 some Chinese trading firms with representatives in foreign countries successfully participated in wholesale trading. Based in the more important coastal towns of Java they exported sugar, tea, tobacco and vegetable oil. At the same time Chinese traders started out in the wholesale import business and soon acquired a controlling stake in the trade of rice, petroleum and matches. The Arabs refrained from this kind of business and seldom took part in tax farming or government contracting in general. They mainly traded textiles, although they had successfully cornered certain niches of the market, such as trading horses, wax, red coral, gold and diamonds.

The Chinese wholesale traders conducted most of their business with their brethren since the retail trade or 'second hand' was almost exclusively in Chinese hands. Under normal conditions business transactions between the two were completely based on mutual trust since no money changed hands and no collateral or promissory notes were required. Retail traders would receive goods worth a few hundred guilders which they had to pay for upon their next visit a couple of weeks later. The purpose of this visit was twofold: besides replenishing any outstanding debt, they would restock and try to negotiate new credit arrangements. European wholesale importers were also willing to allow their customers generous credit conditions as seen from the example of the Batavian trading firm Van Beek, Reineke & Co. in 1878 and 1884. (see Table 2.5).

The intermediary trade bought a whole range of products from big wholesale importers such as batik, drinks, iron, building equipment, yarn, *jamu* (medicine), etc. These were supplemented by goods bought from indigenous petty traders, such as rice, sugar, potatoes, *rotan* (rattan), dye, pepper, etc. In this way, life's necessities could be acquired in their shops which were usually located in the bigger towns of Java's interior. A large part of the population however lived in smaller villages and hamlets and could only be reached by another category of retailers: modest Chinese or indigenous traders and small *toko* or *warung* owners. Part of the merchandise they received on credit was entrusted by them in turn to hawkers who would travel to the remotest of places. And even these hawkers sometimes employed other people to travel around and sell whatever was in demand. Any item would thus reach the *desa*, although the consumer could well receive it fourth or fifth hand.[46]

Fokkens made it clear that this elaborate system of distribution was driven by the repeated extension of credit and determined by the debtor's creditworthiness. With no security given or asked for the key factor was the creditor's appreciation of the amount of trust he could place in his debtor. Competition for clients (i.e. buyer cum debtor) however frequently pushed trust to unwarranted levels. Chinese creditors accepted this risk

[46] Numbers of *pasar* and *warung* in Java and Madura (KV, 1898–1900; Hasselman 1914: Appendix N).

| | Java/Madura | | Batavia district | | Semarang district | | Surabaya district | |
|---|---|---|---|---|---|---|---|---|
| | *Pasar* | *Warung* | *Pasar* | *Warung* | *Pasar* | *Warung* | *Pasar* | *Warung* |
| 1897 | 2,794 | 60,963 | 74 | 4,866 | 176 | 2,326 | 232 | 10,617 |
| 1898 | 2,867 | 60,877 | 74 | 4,932 | 178 | 2,369 | 219 | 9,355 |
| 1899 | 2,992 | 60,661 | 74 | 4,968 | 182 | 2,316 | 217 | 9,436 |

and safeguarded their interests by extending only small loans and limiting the corresponding running period. Contrary to many European trading enterprises, Chinese merchants preferred a diversified investment strategy by putting their capital in the hands of numerous small debtors. Well entrenched in society it cost them far less time and energy to get useful information regarding the safety of their existing capital investments and/or the feasibility of new ones. The majority of European traders found themselves at the fringes of indigenous society and experienced more trouble in gaining access to reliable client and consumer information.[47] This stimulated a tendency to cherish the few reliable contacts painstakingly made and place great trust into them.[48] Consequently, Chinese traders were usually less involved in cases of bankruptcy since credit extended had been minimal in the first place. Often part of the loan had already rendered a 'profit' as the first interest payments were normally made within weeks.

Interest was the price everyone had to pay for obtaining credit. If credit was the driving force behind trade, then interest fuelled it. Each time a trading article went further down the distribution system interest rates for credit went up, whereas the period of extension decreased. This resulted in a high rate of turnover to which the customary high level of interest in the Netherlands Indies, the usual lack of credit security and the extremely competitive trading environment all contributed their share. In this process the colony's distribution system acted as a funnel in which each stage saw a deterioration of credit conditions: interest rates accumulated, the amount of credit extended diminished and loans received ever shorter running periods. In keeping with the soaring credit expense each stage saw an increase in product prices which the consumer in the end had to pay.

Under these circumstances Chinese intermediary trade could easily be accused of usury because of the interest rates charged. Few realized that the rising cost of living, experienced by everyone since the late 1880s, was caused above all by a wavering economy. In general the 1890s were decidedly unfavourable for the Netherlands Indies. Ever since the crisis in 1884 a significant decline in export prices had set in, whereas the price fall of imported products was abruptly halted and even reversed in the following

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47 De *Java-Bode*, 07-06-1892.

48 See the importance of the Arab Aydiet and the Chinese Oey clan for the business operations of Van Beek, Reineke & Co. described in Chapter 2, Paragraph 'Wholesalers and Retailers'.

decade (Korthals Altes 1994: 15, 17–18, 160, 166). The combined effect of a declining income and increased expenditure was naturally felt by everyone. Like many others, Fokkens failed to see this broader trend, concentrating on the perceived manifestations of Chinese exploitation. With the help of the survey results he tried to explain the upsurge in prices by pointing to the accumulation of high interest charges within the trading system.

According to Fokkens' data Chinese retail traders offered the 'third hand' credit for a maximum period of three months. If less trust was placed upon the trader's creditworthiness this was frequently shortened to one month. The goods delivered represented an average value of *f* 30,- to *f* 40,-, rendering between 20 and 25% interest. Credit transactions were widely preferred above cash payments since the latter only allowed a comparatively small profit of 5 to 10% due to heavy competition. In turn, the 'third hand' would extend credit as well, but with different conditions attached to it. These traders would only supply the preferred goods against an interest of 30 to 50%, which had to be paid back by the 'fourth hand' within one or two weeks.[49] It is not surprising that the trader hawking goods in the village preferred to be paid the full amount in cash directly. The extremely short running period of his own debt hardly gave him much choice. Nevertheless, he too would be obliged to provide goods on credit given the scarcity of money in the countryside outside of the harvest period. The amount of credit thereby extended was usually counted in *duiten* (doits) and/or cents rather than in guilders and rarely reached more than *f* 5,-.

Besides selling their products Chinese traders were also active as (wholesale) buyers of Java's agricultural produce such as rice, tobacco, sugar, hides, copra, potatoes, and onions. In many instances the purchase of these products required advances to cover expenses made before harvest. The conditions under which these advances were extended were frequently judged as extremely exploitative. Fokkens provided some examples of 'tricks' played by the Chinese which certainly portrayed them as cunning businessmen. In the case of tobacco, for instance, advances were often needed because cultivation and maintenance of the fields

[49] If sold for cash the 'third hand' traders would make a profit of 10% to 12% on textiles, 25% on yarn, 20% on petroleum and 14% on wax. If sold on credit these numbers doubled to 30%, 50%, 40% and 25%. This only applied in case the 'third hand' trader had paid for these goods in cash himself. If not, the interest rate charged by the 'second hand' would see his profits diminish with 12%, 10%, 5% and 4% respectively.

could cost *f* 70,- to *f* 100,- per *bouw* (i.e. 1.747 $m^2$) which the farmers could not afford. In the Wonosobo and Banjarnegara area of Central Java Chinese traders coming from Kedu, Bagelen, Pekalongan and Banjumas would therefore buy tobacco 7 to 9 months before delivery and provide the cash to meet the necessary expenses. The conditions stipulated that they would receive *f* 16,- worth of tobacco for every *f* 10,- of credit. More generous conditions were also possible; sometimes cash would be advanced against an interest that would vary between 15 and 50%.

But advances were not always needed and during the harvest period many Chinese traders would frequent the villages around Wonosobo to buy the tobacco from the fields. In order to get the price down some of them used the following routine. The farmer best known for the quality of his tobacco was approached first and asked to name his price. If he demanded *f* 10,-, the Chinese would offer him *f* 12,-, but only if he promised to spread around that he had sold his tobacco for *f* 8,-. This deflated price for the finest tobacco would convince other farmers to sell their tobacco for less than its original worth. These practices had been stopped by the local government a few years before the survey of 1892. Chinese traders were refused passes to visit the *desa* and had been obliged to buy tobacco at the bigger markets. The administration had however been unpleasantly surprised when it came to their knowledge that the Chinese still managed to influence the market price. To circumvent the imposed restrictions Chinese traders in the market place had co-ordinated their efforts and agreed not to place any bids until late in the afternoon when people wanted to go home. Eager to close a deal, the farmers were then more willing to accept a low offer. Again, local officials intervened by providing shelter for people to stay the night at the market and by having their tobacco guarded by police officers.

Another example of Chinese shrewdness in the eyes of Fokkens was the way they used the new railway tariffs to their own advantage. The agricultural crisis of 1884 had caused an adjustment of freight tariffs in an attempt to support the heavily hit plantation sector whereby transport costs per full cart load had been reduced. The transport of smaller quantities on the other hand had become more expensive. This did not accommodate the indigenous sector of the economy where transport in bulk was uncommon. Most indigenous producers were only aware of the fact that a higher price had to be paid for the small quantities they usually supplied. Naturally their Chinese counterparts kept silent, referring only to their increased expenses, in order to justify a lower bid and get a better price. Provided the cost of storage was sufficiently low, he would

subsequently wait until he had collected a cart load of products allowing him to make use of the reduced freight rates. This way he would double his gain.

These two examples may testify to the exploitation of the indigenous population by the Chinese, or simply illustrate the business acumen of the Chinese intermediary traders. Fokkens' observations regarding the behaviour of indigenous traders in competition with the Chinese are very informative in this respect. Though less prominent and trading on a far smaller scale indigenous traders also actively engaged in buying agricultural products from the population in order to sell them profitably on the market. Perhaps to Fokkens' own surprise these traders did not differ from the Chinese in paying cash advances "under virtually the same conditions". In other words, charging the same high interest rates and without moral qualms. Apparently Chinese were no different in their business practices from traders of other ethnic backgrounds. The fact that the business methods used were identical seems to provide sufficient proof of the fact that the Chinese way of conducting business was not particularly shameful or dishonest in itself, but merely customary practice dictated by the prevalent circumstances.

Fokkens wrestled with the question how to evaluate the Chinese presence in the countryside. Next to the registered abuses – which he attributed to the revenue farming system – he was time and again confronted with the indispensability of Chinese trade in general. He admitted that the expansion of indigenous agriculture owed a lot to improved market accessibility as a result of Chinese economic activity.

> The certainty the Native consequently has of selling his product, makes him expand the land in cultivation with confidence.

In some cases the cultivation of agricultural products actually originated through the mediation of Chinese traders, whose intervention opened up markets previously inaccessible to the smallholder. In 1888, for instance, cacao prices in Batavia suddenly soared and Chinese traders in the residency of Sukabumi immediately reacted by buying the product wherever they could find it. As a result, valuable cocoa trees could be found in almost every village in the Sukabumi area in 1892. Another example occurred in the Preanger where the administration had actively promoted the cultivation of beans. The harvest of 1888 turned out to be so good that the product almost completely lost its value. At that point some Chinese traders bought a large quantity of beans for sale in Batavia. This soon created such a demand that the price nearly tripled. In 1892 the Preanger

population still enjoyed steady bean sales generated by improved access to the Batavia market.

*Concluding Statements: Reporting against the Tide*

Unsurprisingly, Fokkens found no alternative to the dominant position of the Chinese in the colony's trading system and had to accept continued Chinese presence in Java's interior. But, in line with the opinion of nearly all his interviewees, he strongly recommended that only limited numbers of Chinese be allowed access to the indigenous population. Their movements should be restricted and closely supervised in order to protect the villagers. Contrary to Groeneveldt's recommendation of a complete overhaul of the Pass System, Fokkens wanted to maintain existing provisions, although he did warn against passes being marked with red ink or used as a means of ensuring rapid tax payment. These practices made the system too much a tool for collective punishment instead of a policy instrument. Fokkens also concluded that the opium farm had outlived its purpose and more often than not acted as a cover for all kinds of questionable business transactions. Besides, the required contacts of the Chinese with the indigenous population seriously undermined the monitoring function of the Pass System. Like Groeneveldt, Fokkens was in favour of the immediate abolishing of this archaic system of revenue collection which a strong government could perform itself.

Arabs did not figure prominently in the report even though the investigation pertained to Foreign Orientals in general. Their numbers were small as they constituted only 6% of the total number of Foreign Orientals counted in 1892, against 93% for the Chinese.[50] If Arabs were mentioned at all, it was always in a negative sense. In fact, all those that had returned Groeneveldt's survey considered the Arabs more of a threat to the indigenous population than the Chinese. The conditions under which they extended credit were generally considered scandalous and most were suspected loan sharks. In Dutch eyes any business conducted by Arabs was usually done on the side and/or acted as a convenient cover for their dubious money practices. The only business they undertook which the Dutch viewed more positively was the important trade in textiles and horses.[51]

[50] The remaining 1% was made up of Armenians, Indians, Bengals, Malays, etc. 2,655 men, women and children in all, that remained invisible throughout the investigation.

[51] De Jonge has described the persistent negative image of the Arab community in the Netherlands Indies and the discriminatory measures Arabs were subjected to (De Jonge 2002: 223–226).

In September 1894 Fokkens completed his assignment, but it was not until April 1896 before the report ended up on the desk of the Minster of Colonies J.H. Bergsma in The Hague in response to public requests urging its publication.[52] The minister asked his staff to evaluate the report critically and assess whether it should be published. It was held that the report contained little news. Most of its content was common knowledge for those acquainted with the Netherlands Indies. However, it did compile scattered information for the first time, depicting a wavering government with little vision and an inconsistent attitude towards its Chinese and Arab subjects. Fokkens' recommendation of strictly supervising the Foreign Orientals to protect the indigenous population from their destructive influence was uncontested. However, his conclusions were considered inopportune. All those advising the minister agreed to Fokkens' view of indigenous exploitation by the Foreign Orientals, but the government's image would be little served by publication of these shameful acts. "Would this not arouse a wave of indignation, surpassing the '*Max-Havelaar storm*'?"[53]

An additional political argument not to publish was to preserve the diplomatic relations with imperial China, which had become more self-conscious and assertive over the last few years. The Chinese government had already protested firmly against Australian and American measures to limit the influx of immigrants from China. China was considered a future political power to be reckoned with and many expected Chinese would be granted formal European status in the near future. Therefore, some preferred to set out a new course rather than being forced by China to open up the colony for what the emperor considered to be his subjects. With the maltreatment of the overseas Chinese in the Netherlands-Indies spelled out in an official publication a formal protest was to be expected, possibly giving rise to unpleasant negotiations and/or apologies.

Political motives thus prevented publication. This pattern would repeat itself in the following years when ethically inspired policy initiatives frequently clashed with economic and political realities (see Chapter 5, Paragraph 'Ethical Policy'). Movement restrictions would only

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[52] NRC, 09-02-1897; NRC, 13-03-1897.

[53] Publication of this novel by Multatuli in 1860 had shocked the general public because of its distressing depiction of indigenous suffering under the Cultivation system. The *Max Havelaar* became synonymous with the unjust treatment of the indigenous population under Dutch government. For an account of Multatuli's life and masterpiece, see Beekman (1998: 212–260). In 2002 D. van der Meulen published a biography of E. Douwes Dekker or Multatuli. See p. 135–354 for a description of his stay in the colony, while p. 413–438 recounts the process of writing and publicizing the *Max Havelaar* as well as the response – both positive and negative – it received.

temporarily be reinforced at the very end of the nineteenth century, because they met strong opposition from powerful economic interests. Notwithstanding ethical rhetoric the government soon started to relax the movement and settlement restrictions imposed upon the Foreign Orientals. This signalled the defeat of Fokkens' recommendations, although their failure to influence government policy probably had as much to do with the report's lack of analysis. This shortcoming became evident after the publication of a short article by Groeneveldt in the *Nieuwe Rotterdamsche Courant* on 13 March 1897.

In it Groeneveldt reacted upon a lecture given by Fokkens on 2 February 1897 before the Indisch Genootschap (Indies Society) in The Hague (Fernando & Bulbeck 1992: 58–75). This lecture was a virtual reiteration of his main research recommendations, i.e. a plea to abolish the revenue farms in Java and Madura and intensify the control of movement of the Foreign Orientals. Fokkens quoted freely from his unpublished government report and used its results to support his views. Groeneveldt was appalled by the tenor of these arguments and felt obliged to resist "those dark impressions concerning the Chinese in the archipelago" which "threaten to be given powerful and even official sanction." He considered it his duty to protect the reputation of his many Chinese friends in Java and to redress the negative image of the Chinese.

Groeneveldt asserted that he did not wish to deny the illegal and criminal conduct of some Chinese, but stressed that such behaviour appears regardless of a person's ethnicity. For that reason alone revenue farms needed to be abolished, not because they had fallen into the hands of Chinese, but because they provided the opportunity for malpractice. With regard to the persistent complaints made by Dutch import firms of deteriorating Chinese trading practices, Groeneveldt presented a very plausible explanation. He related the many defaults and bankruptcies of Chinese retail traders to the economic downturn of the late 1880s and the demographic development of the Chinese population group. He explained how the crisis in the import sector had initiated intensified competition among the European trading companies. Struggling to survive they had welcomed any enlargement of their clientele and had consequently lowered their level of acceptance. Before the crisis European wholesalers had limited their trading contacts to a select group of highly reputable and well-to-do Chinese retailers who had proven to be trustworthy over many years. Smaller Chinese merchants of less reputation would steadfastly be refused credit and had been obliged to turn to their more successful brethren. However, the crisis made many European import firms change

their sales strategy and include smaller Chinese businesses of unknown stature and limited creditworthiness.

Groeneveldt seriously questioned the trustworthiness of many of these new business associates, especially since the influx of many thousands of Chinese immigrants had increased the competition among the Chinese traders themselves. Many newcomers had an extremely hard time in carving out an existence for themselves and under such arduous circumstances the distinction between fair and foul trading practices became easily blurred.

The Dutch put much effort into finding a solution that would keep all these Chinese in check. The Fokkens' report was only part of that effort. Unfortunately it fell short of unearthing the foundations of the economic position of the Foreign Orientals. It can however not be denied that the report had distinct merits. A specific and important section of colonial society had been mapped for the first time. But the economic and political momentum did not support the report's conclusions. The Dutch believed the Chinese problem could be solved by abolishing the revenue farm and intensified restriction of Chinese movements, but these measures actually made the situation worse. The severe problems experienced by the trading sector of Surabaya during the late 1890s soon made it clear that a different course had to be set out.

## *A Wave of Failures: Surabaya in the Late 1890s*

### *Chinese Commerce in Danger*

The revenue farm system enabled Chinese to secure lucrative business opportunities by holding monopoly licenses for centuries. Around 1900 the most important of these revenue farms ceased to exist within a relatively short period. With the market tax farm abolished as early as 1851, the opium tax farm came to be substituted by a government monopoly in Madura in 1894 and in East Java in 1896. The farm for slaughtering livestock was abolished in 1897, whereas in 1898 the government announced the end of opium farming in the whole colony within a few years. This final moment came in 1904 when all opium farms were replaced with a state monopoly. In 1904 the government also took over direct control of the pawnshop tax farm, despite the fact that this farm was not considered especially harmful to the indigenous population.[54] However, complaints

[54] Pawn credit did not necessarily stem from dire necessity, but above all fulfilled a need for cash (Van Laanen 1980: 41–42). See also Boeke (1919: 42–60).

regarding abuse of the system by the Chinese persuaded the government to stop leasing pawnshops to private individuals. The abrogation of revenue farming had thus taken place with the remaining farms – localized and of small importance – allowed to stay in place for the time being (Diehl 1993; Fokkens 1992: 58–59; Williams 1960: 24).[55]

The heady dismantling of the revenue farm system was a severe blow to the Chinese establishment, who lost more than their semi-official status and the accompanying social esteem. Many licensed enterprises were forced to close and Chinese financial losses were vast. These encompassed not only hugely profitable business undertakings in which Chinese had invested heavily, but also substantial profits from business conducted on the side. Nothing had prevented a revenue farmer from engaging in trading activities besides his licensed business. A farmer in opium might therefore well have traded textiles. If he was willing to sell on credit, this would have earned him interest and it would have been but a small step to become a local moneylender. With the demise of the revenue farm the indirect profits accruing from such a position evaporated, since the primary reason to issue travel passes was lost. Likewise, the elaborate business organization farmers had painstakingly built up in the countryside was threatened. This had once guaranteed them access to Java's rural markets. The tightened pass and zoning regulations administered the final blow in this respect.

The movement restrictions affected the entire Chinese commercial sector. A wave of failures among Chinese traders – all heavily dependent on rural markets – occurred in the immediate post farm period. Chinese small traders could not move around freely and sold fewer goods, leading to a rapid decrease in turnover. The new provisions also interfered with the collection of outstanding debts in the villages. As a result many petty traders defaulted and their wholesale patrons in turn were forced to default to the detriment of the Western trading companies who had given them advances. This domino effect was aggravated by the weak position of the European import business after the commercial breakdown of the late 1880s.[56]

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[55] The loss in income from revenue farming was compensated by a combination of revenues obtained from government monopolies (e.g. opium and pawnshop), new forms of taxation (e.g. slaughter tax, excise duties, business and income taxes), the sale of products from government plantations and mines and the operation of transport and communication enterprises (Diehl 1993: 203–207).

[56] See Rush (1990: 242–243), Williams (1960: 26–27); Liem Twan Djie (1947: 33); Fromberg (1911: 423–424, 620). See also Chapter 3, Paragraph 'The Crisis Prolonged Sing Liong & Co'.

The European trading sector found itself badly equipped to weather the upcoming storm of defaulting clients. After the Sing Liong case DJB had successfully implemented new regulations to reduce its exposure to bankruptcies. No similar mechanism of risk reduction was available to European traders, largely because of their sheer number and the extreme competition between them. Even the large trading firms could not dictate the conditions under which the market operated while fending off external shocks proved extremely difficult. At no point did wholesale traders find it easy to collaborate for a longer period of time. Acknowledgement of the unhealthy trading situation and recognition of the benefits to be gained from teaming up always demanded a crisis.

With the uproot of the Chinese commercial system in the 1890s such a crisis was bound to surface. In 1895 the commercial sector of Surabaya started to experience difficulties. Representatives of Surabaya's trading and banking sector assembled on 29 March 1895 to discuss the first signs of disaster caused by (pending) defaults among Chinese retail traders.[57] The financial settlement had been tense since creditors had tried to get their claims honoured to the detriment of others. To prevent this from happening again, a code of conduct was discussed. A total of 32 import firms and eight banks were represented, nearly all the companies active in the trading and banking sector within the Surabaya area. Although several motions were discussed and eventually adopted, the common code could not be agreed upon. The result was a half-hearted consensus to confer with each other when confronted with a defaulting client.

P.A. Daum, chief-editor of the *Bataviaasch Nieuwsblad* wrote about the situation in Surabaya on 29 April 1895.[58] Four weeks had passed since the meeting but little had been achieved. Again Chinese traders had been forced to default, offering only slight repayment of their outstanding debt. Or in the words of Daum: "[…] offering creditors the choice between nothing or a little […]." By his calculation the total debt of Chinese and Arabs defaulters in Surabaya since the beginning of 1895 amounted to approximately *f* 900,000 of which only 60% to 65% was covered. So in four months time total loss incurred had climbed to over *f* 400,000 which would most likely increase since a number of cases had not yet been settled. Wholesale trading firms still enjoyed credit at the banks but if the financial sector should decide to withdraw its support some traders seemed destined to fall.

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[57] BI/DJB 67 No. 13: 98–108; *De Indische Mercuur*, 04-05-1895. Earlier examples of Chinese bankruptcies in Surabaya can be found in Von Faber (1931: 161–162).

[58] *Bataviaasch Nieuwsblad*, 29-04-1895. See also BI/DJB 67 No. 8: 43.

In Daum's point of view the European trading sector had only itself to blame.

> Each year we see them again, those astounding defaults comprising one, two, or three hundred thousand guilders [...] and still we see the European traders continue to stuff their pigtailed and turbaned clients with heaps of goods, and on terms of payment which in themselves are evidence enough of the speculative nature of these transactions. Still, the trading houses continue to send their staff into the *kamp* [Chinese and Arab residential areas] to play *sobat kras* [close friend] with all sorts of Foreign Orientals, so finding an outlet within a saturated market whereby credit is extended which a European firm with less modest means would be denied.

The import trade needed to be placed on a more solid footing and therefore Daum applauded the earlier meeting as a first attempt to achieve cooperation. But, as he reminded his readers:

> The gentlemen all showed themselves aware of the comforting fact that a European Christian-merchant is just as unreliable as a Muslim or heathen one, and consequently the result of the meeting did not go any further than the recitation of some spiteful remarks and the raking up of past events.

DJB shared Daum's critique in expressing little admiration for the extremely careful and limited recommendations made.[59] In their opinion the meeting had focused too much on the remedy instead of the illness. It would have been better to seek a general reduction of the amount of credit extended in combination with a curtailment of the running period of each loan. Apparently, such preventive measures required more enthusiasm than the import trading firms could muster at the time.

### *The Frustrating Business of Trade*

Daum did not ask how this situation had come into existence. He simply asserted that improvement was possible, if only the wholesale traders would stop quarrelling and work together. The existing trading system prevented this from happening. Decades before an anonymous commentator had already pointed out that the European trader was forced into a position with little room for manoeuvre.[60] The trust placed in him by his principal(s) demanded short-term tangible results. Being swamped on the one hand with goods from Europe for which an outlet had to be found, while at the same time searching for export products was no sinecure.

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[59] BI/DJB 67 No. 13: 95.

[60] *De Kali Bezaar te Batavia* (1862: 153, 157, 161–162, 176).

And there were countless other tasks to attend to, such as the transport of agrarian products from the countryside to coastal areas, customs issues, the administration of godowns, and the procurement of coolies. Many traders would also have side jobs and manage a shipping agency, be involved in a *praauwenveer* (lighter company), or sit on the board of an insurance firm.

The operations of a trading company required an large investment of capital. Export products could only be obtained by advancing great amounts of working capital to different agrarian enterprises, whereas credit extension was crucial to clearing the shelves of imported goods in time for the arrival of a new shipment. The potential profits were however very real and in general the massive capital outlays were considered well justified by everyone in the business.

The upsurge of private enterprise due to the break-up of the Cultivation system changed this situation rapidly. New trading companies were established and in the case of imports this soon led to unbridled competition and a saturated market. The overcrowded import sector had to struggle even more to find an outlet for its articles and the Chinese retail trader became exceedingly important in this respect. Indispensable as a go-between he was encouraged to take as many items as possible, preferably on a regular basis, by being awarded fabulous credit on ever more generous terms.

It would be wrong to say that the Chinese were 'entrusted' this money by their European trading partners. The faith seemingly exhibited by the Europeans in their Chinese counterparts was inspired by dire necessity and the inability of wholesale importers to co-operate with each other. Huge amounts of credit thus governed the business alliance between wholesalers and retailers and would continue to do so until the end of the Dutch colonial presence (see Box 4.1 for the comparable situation in Singapore).

Though aware of these circumstances contemporary authors continued to express their amazement at the magnitude of the phenomenon.

> No country in the world brings to light the value of credit as the Netherlands Indies. A Chinese [...] settling his first small payments in time, gradually obtains credit for thousands and thousands of guilders without owning any capital at all. It is not uncommon that a Chinese manages a turnover of one and a half million guilders in textiles in one single year without making a full percent of profit. This kind of trade is therefore unable to withstand exceptional circumstances;[...] a little dip in turnover, no matter how slight, renders a bankruptcy inevitable and a settlement has to be reached with the

Box 4.1. Trading practices in Singapore (nineteenth century).

The European merchants in Singapore conducted their business through Chinese merchants with better knowledge of and access to regional markets. As these middlemen seldom had any capital, the European trader had no choice but to sell them goods on credit. These credit sales were accompanied by promissory notes and/or acceptances payable, nominally, in three months time. In practice credit was extended to four, five, and even six months and paid back in instalments according to the amount of pressure exerted by the European firms. Chinese merchants, therefore, lived off the capital of the Europeans.

This system had serious drawbacks as it encouraged reckless speculation. When strapped for cash or sniffing a business opportunity Chinese merchants would, for instance, buy goods on credit and sell these at prices 20% to 30% below market level. They would then depend on the profits of original or new business deals to recoup not only the losses incurred in this sale for cash, but also to give them a reasonable margin of profit. When this failed to occur, the European suppliers of credit had to bear the burden of loss.

Such instances were not uncommon. In 1858, for example, several Chinese firms in Singapore collapsed. They had conducted their business on too large a scale with insufficient capital of their own owing to the fact that credit was easily obtained. To safeguard trading activities the Singapore Chamber of Commerce decided to restrict the period of credit extension to three months. In 1864 two European firms with liabilities of over a million dollars had to close their business. Their failure was again ascribed to the indiscriminate granting of credit to Chinese traders, encouraging them to overextend their activities. This incident led to a further reduction of the credit period to two months.

Commercial crashes like these were blamed on the weakness of the credit system which the Chinese (mis)used to their great advantage. However, contemporary opinion did realize that the faulty credit terms were partly caused by the fierce competition among European trading companies and their unabated struggle to dispose of their goods. This struggle attracted official notice as early as 1844, but only became damaging in the 1860s. In 1865 more European trading companies went bankrupt, including one of the oldest firms with liabilities of more than a million dollars which subsequently led to a rush on the banks and the closure of two of them in the following year.

These examples show that during the nineteenth century the entrepot trade of Singapore suffered serious growing pains. Compared with earlier decades the fluctuations in trade and trading conditions became more violent because of increased sensitivity to world trade conditions. Europeans and Chinese remained business partners, but they were forced to renegotiate the terms of trade. A slow and painful process which saw severe disruptions on more than one occasion.

Source: Wong Lin Ken (1960: 162–169).

> creditors. In such times several hundreds of thousands of guilders are soon reduced to 40–60 percent of their original worth.[61]

Outcomes of this kind were harsh reality on numerous occasions, but failed to inspire a thorough analysis of the underlying causes. Public opinion routinely pointed the finger to the Chinese. Accusations against the Chinese were usually accompanied by persistent rumours of embezzlement and outright fraud of Chinese traders when dealing with their creditors during a bankruptcy proceeding or settlement agreement. Commercial law provisions were considered to favour the Chinese population group and it was not doubted that they knew exactly how to make use of the law. Different voices were only sparingly heard. Though not oblivious to the fact that there was many a crook and swindler to be found among the Chinese, people like F. Alting Mees, P.N. Fromberg and Y.W. Young emphasized the European traders' own responsibility and held them partially accountable for the frequent occurrence of Chinese bankruptcies.

The argument made by these and other advocates against the wholesale import traders consisted of three main elements. First, overextension of credit which was given too easily under far too generous terms should end. The amount of credit extended in each individual case ought to come down substantially, while the application itself ought to be considered more thoroughly with regard to the security offered and the perceived solidity of the applicant. Interest rates charged should not be artificially low. The prolongation of a loan should not be given too easily and should conform to clearly stated rules in order to stop clients from relying on certain approval. Finally, the running period of a loan needed to be cut back to keep a company's capital circulating.

Second, the import firms should refrain from flooding their clients with articles, since they knew that this would lead to heavily saturated markets and falling prices.[62] Consequently, the capacity of their clients to honour their debts and pay the agreed instalments would be at risk. Next,

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[61] Ibidem, 163.

[62] Moreover, in an effort to clear their shelves European importers would frequently pressure Chinese traders into buying more than they asked for or would sometimes expect them to purchase unwanted items from previous shipments in order to receive other goods in higher demand. In *De Locomotief* chief editor Brooshooft maintained that Chinese traders were often done mischief by European wholesalers operating this way. In an imaginary tête-a-tête he let one of them speak to his Chinese client: "If you buy that much with A, then you have to take at least twice the amount with me, for I have got older rights; if you convenience B by helping him get rid of his old junk, then you have to help me out as well first in order to receive new goods, etc." (*De Locomotief*, 11-03-1898).

products put on sale ought to be marketable and of guaranteed quality and value.[63]

Third, the fierce competition among the wholesale traders needed to be checked. Instead of poaching on each other's territory co-operation was urgently required which would surely contribute in achieving the first two points.[64]

The common sense of these recommendations was beyond any doubt, sometimes even acknowledged, but in most instances simply brushed aside as a pretence to excuse Chinese offences against the law (Meeter 1881: 3; *De Indische Gids* 1881: 961). This should hardly come as a surprise. The motives dictating this kind of behaviour were deeply rooted in feelings of racial superiority sanctioned for decades by discriminatory regulations. Still, another reason appears to have been of equal importance. To all intents and purposes no level of mutual agreement existed among the European traders on how to approach the intrinsic weakness of the trading branch. Intense competitive behaviour had become part and parcel of the trader's outlook and this normative attitude was compounded by the fact that agents of most trading firms were tied hand and foot, not only by all kinds of directives from their head office, but also by an extremely demanding working environment. As a result, there was no relationship of mutual trust that could be built upon. This revealed itself in the individualistic behaviour of European creditors when confronted with the default of one of their clients.

As the word spread that a retail trader had fallen short on his debt payments, creditors would immediately rush forward and try to secure their own claims by any means possible – even if these actions would be to the detriment of others. Efforts to conclude a secret settlement (*sluipaccoord*) were common.[65] This was considered acceptable, as indicated by the words of a trader from Surabaya:

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[63] As opposed to the woollen hats from Norway the trading firm Hagemeijer reportedly delivered to its agent at one point in time (Huizinga 1975: 145). DJB warned its clients that it was in their own interest to keep the retail trade healthy and financially solid. On 9 April 1894 representatives of the Batavian trading firms Gumprich & Strauss and G. Hoppenstedt were summoned to the board meeting of DJB. Both gentlemen were told that DJB disapproved of the large credits they had supplied Tan Tiauw San and Tjoa Tjeng Sioe (alias Baba Goendoel) with. Although the creditworthiness of both men was not disputed, it was recommended to keep it that way and not swamp them with goods unless these were readily saleable (BI/DJB 65 No. 4: 8).

[64] See Liem Twan Djie (1947: 34–37), Alting Mees (1881), Fromberg (1926), Meeter (1881: 2), Young (1894 and 1895), Huizinga (1975: 145).

[65] A *sluipaccoord* can be defined as a settlement established through unfair means which deliberately disadvantages other creditors (Bonjernoor en Heyenbrok 1934: 227).

> [...] this is customary with us [i.e. European import traders]: those who are able to cover themselves in time, do so.[66]

Collective action nevertheless remained necessary in order to prevent a defaulting client from being officially declared bankrupt. In such case all creditors would stand to lose even more. The assets of a retail trader mainly consisted of the instalments he had negotiated when selling his products to the indigenous population in the villages. Repayment of outstanding loans could therefore only be expected when the retail trader was allowed to stay in business, enabling him to keep collecting from his own debtors. When declared bankrupt the remaining outstanding credit in the countryside was usually lost. Retrieving even part of it was a difficult task since indigenous debtors showed no scruples in playing hide and seek when their creditors showed up in the village in order to collect (Multavidi 1906: 342–344). Besides, the wholesaler – trading in unknown territory – might get embroiled in all kinds of local considerations, the implications of which he could not always oversee. The time and energy involved in these proceedings were simply not worth the expense.

Partial recovery of outstanding claims could best be negotiated through a collective settlement with the debtor outside of court. Consequently, settlement negotiations were initiated even when there was serious doubt regarding the circumstances under which the client had defaulted. Usually, the import trader with the biggest claim would compile a list of creditors and debtors – if possible one of assets and liabilities as well – and draw up a draft settlement after which he would visit the other creditors. The first to visit would be the party with the second biggest claim whom he would urge to accept the offered settlement by arguing that the percentage offered was the best chance of retrieving at least part of the money: "It is better to have half a loaf than no bread at all." Naturally, he would promise to pay the same courtesy to his colleague if need be. After all, he too might conceivably find himself in the same position within the foreseeable future. All creditors were thus consulted since bankruptcy proceedings could only be avoided after having obtained their explicit consent.[67]

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Examples of *sluipaccoorden* can be found in *De Java-Bode*, 24-02-1892; Fromberg (1926: 409) and Alting Mees (1881: 37).

66 *De Java-Bode*, 24-02-1892.

67 *De Java-Bode*, 28-06-1892.

It usually required stamina and persuasive skill before all those consulted could be convinced to accept the proposal.[68] The main problem was the widely differing interests of the creditors involved. The amount of credit extended by the different companies could range from e.g. a mere *f* 500 to an astonishing *f* 150,000.[69] Those involved most deeply were most eager to prevent bankruptcy since the remaining assets (stock, property, etc.) would almost certainly be negligible. This placed the least affected in a powerful position for if they declined to co-operate bankruptcy would still be pronounced. The bigger claimants were often coerced into buying the necessary co-operation, by allowing the defaulter to pay the smaller claims of competitors in full before the settlement would be signed. Understandably, the latter were only too glad to accept and/or seek this kind of solution.[70] Nuisances of this kind and the ever present possibility that someone would nonetheless try to conclude a *sluipaccoord* did not alter the situation. Without a viable alternative settlement agreements remained the only possible instrument for (partial) debt recovery. They came to be valued so highly that traders would even judge the trustworthiness of their clients by the successful completion of earlier settlements.[71]

The multiple default and settlement history of Lie Tjong Hwat, a former butcher (*spekslager*) in Surabaya, illustrates this unhealthy situation.[72] The amount of credit with which he conducted his business slowly accumulated over the years and in September 1885 he was indebted for the amount of *f* 95,000. At this point he was forced to offer a settlement of 40% which he promised to pay in twelve consecutive monthly payments. With two guarantors (The Yang Hwat and Tan Ting Gwan) backing the offer his creditors accepted the proposal. It would cost them approximately *f* 57,000 but also ensured he continuation of Lie Tjong Hwat's trading business. Lie Tjong Hwat honoured his commitments and towards the end of 1886 the agreed settlement was completed, after which he was awarded new credit.

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[68] In many instances the creditor who managed to fabricate a successful deal was therefore tacitly rewarded an extra percentage (*De Java-Bode*, 28-06-1892).

[69] The bankruptcy of the Semarang trading firm Lim Khoen Liang & Co. in 1890 is a case in point. Van Duijm & Co.'s claim of *f* 570 paled before Internatio's *f* 152,157.39 (NA/NHM 8018 No. 1090).

[70] *De Java-Bode*, 24-02-1892; *De Java-Bode*, 28-06-1892.

[71] The following anecdote is a telling example of this line of reasoning. Upon being warned that a Chinese client would most likely have to default soon, one Surabaya trading firm uttered the following reassuring words: "No, there is no fear for this Chinese; on the contrary he is very solid, because… he has already settled twice!" (Meeter 1881: 35).

[72] *SH*, 15-07-1896; *SH*, 16-07-1896; *SH*, 18-07-1896.

In the following years Lie Tjong Hwat acquired more and more credit. As a result total debt amounted to an impressive *f* 247,000 when he had to default on his payments for the second time in February 1893. Surprisingly, Lie Tjong Hwat offered to pay his creditors in full, i.e. a settlement of 100% to be paid in 25 monthly instalments of 4%. Unfortunately a third settlement was required, because Lie Tjong Hwat was unable to keep his promise. This time he offered only 30% of his remaining debt of *f* 242,060 minus a 'reward' of ± *f* 3,500 for the services rendered by his guarantor Oey Koen You. Almost *f* 167,000 of collected debt was thus irretrievable, but the creditors decided to cut their losses and accept the proposal. After twenty instalments this settlement was successfully completed early 1896 and, more importantly, Lie Tjong Hwat had been able to continue trading throughout this period.

It had taken two years to reconstruct Lie Tjong Hwat's debts, but in the meantime new credit had been extended. Old debts were thus simultaneously being replaced by new ones. On 6 July 1896 Lie Tjong Hwat declared himself unable to pay his debts for the fourth time. Once again he tried to push for a settlement outside court, but his creditors turned out to be less co-operative than before. Lie Tjong Hwat first approached his main creditor in an attempt to obtain his help in reaching an agreement. Initially he offered him 10% more than the other creditors, who would probably get 40 or 50%, but this inducement fell on deaf ears. Several new attempts were made the following day which also failed. Even Lie Tjong Hwat's appearance at his creditor's office in the early afternoon did not produce the desired result. His generous proposal of a *sluipaccoord*, whereby 50% would be paid publicly and 50% in secret was likewise turned down. Frustrated by these failed attempts Lie Tjong Hwat left the building declaring that in that case he would just go *pailliet* (bankrupt).

Following his departure Lie Tjong Hwat weighed his options and decided to change tactics. Whether he asked for a favour or indeed collected one will remain unclear, but late that same afternoon a European trader speaking on behalf of Lie Tjong Hwat paid his reluctant main creditor a visit. The next morning the same 'friend' turned up again in a final attempt to smooth things out, but his efforts proved to be in vain. That same day, 8 July 1896, Lie Tjong Hwat filed for bankruptcy at the Council of Justice in Surabaya. According to his own specification the total amount of debt came close to *f* 180,000. However, in the negotiations with his unwilling creditor the day before a list with a significantly lower amount of *f* 131,803.41 had been handed over. Naturally, it was deemed highly suspicious that the difference of about *f* 50,000 was attributed solely to

Chinese creditors whose statements were distrusted and difficult to verify. Equally questionable was a share in the petrol *kongsi* Sie Tjong Hwat for *f* 7,000 whereas it was said to be worth *f* 20,000. All this and the fact that Lie Tjong Hwat could not produce annual accounts added to the belief that he had deliberately raised his liabilities and lowered his assets in order to repay as little as possible of the extended credit.

This case became front-page news on Saturday 18 July 1896 when the *Soerabaiasch Handelsblad* published an editorial placing this affair within the wider context of Chinese business practices. Chief-editor H.G. Bartelds asked whether there still was good faith amongst the Chinese and claimed that defaults were increasingly considered an appropriate means for self-enrichment.

> The Chinese trader goes bust for no other reason than to become rich the easy way. The shame is gone and the illegally obtained goods remain, choosing between the two is not difficult for him anymore. [...] the Chinese even prides himself on defaulting, he who goes bust most often is considered most clever.

Such remarks seemed to indicate another routine exercise in blaming the Chinese for all problems in the trading business. But in the second half of the article Bartelds turned his attention to the European import traders and their custom of maintaining credit facilities even when payments had just been suspended and settlements still needed to be negotiated.

> People expect that he [the Chinese trader in general] will remain good for a couple of years, and trust that the new deliveries will make up for the damage caused by the default.

Bartelds conceded that this strategy might work on occasion, but pointed out that it could never be applied as a rule. He therefore urged the importers to recognize the foolishness of their attitude. Otherwise the Chinese 'second hand' would be the only one to benefit from the combined efforts of the import firms and their suppliers.[73]

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[73] Bartelds did not elaborate on this line of reasoning and concluded his argument by appealing to the government to change the commercial law provisions of 1855. In other words, improvement of the situation had to originate from the government and not from the traders themselves. This could easily be achieved by no longer allowing Foreign Orientals to file for bankruptcy themselves and by broadening the possibility of imprisoning the defaulter (i.e. *lijfsdwang*). Especially the threat of *lijfsdwang* would in Bartelds' opinion force the Chinese businessman to honour his commitments.

*The Arrest of Oen Tik Kang*

The earlier discussed meeting in Surabaya on 29 March 1895 seemed poised to alter these frustrating trading practices by addressing the need for a common code of conduct. The inconclusive outcome showed the participants could not yet agree upon a joint stance. Mutual distrust still impeded the desire for co-operation. Still, fear of a pending financial disaster slowly created a more co-operative spirit. The following year the Surabaya import houses jointly agreed to have a qualified interpreter of the Chinese language investigate the books of Chinese traders when necessary. The agent of DJB was asked to act as the representative of the participating firms whenever the interpreter's service was required.[74]

In 1881–1882 P. Meeter (the government interpreter of the Chinese language in Surabaya from 1876 till 1888) had been given a comparable task, aimed at reducing settlements with Chinese defaulters without thorough examination of their trade accounts (*Regeeringalmanak 1877–1889*).[75] According to Meeter his activities served as a strong warning for Chinese traders contemplating fraudulent bankruptcy and had instantly reduced the financial loss of the European importers to nil. Such spectacular results would surely have warranted a continuation of the agreement, but – upon the request of Meeter himself – the initial contract was not renewed. It seems Meeter's claims of success were unfounded; contemporaries accused him of self-glorification after an investigation in 1892 clearly showed that the European importers in Surabaya still reported a loss of *f* 1,025,000 from Chinese defaults over the two-year period of Meeter's activities. (Interestingly Chinese and Arab import traders involved only lost *f* 179,700.-.) Although it was acknowledged that this was a slight improvement, it also showed that examining Chinese books fell far short of being able to prevent future credit risk.[76]

It would take fifteen years before Surabaya's import houses were ready to try this again. Meeter's unidentified 'successor' was appointed in September 1896 and was soon called upon. Within a month the NHM

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[74] BI/DJB 69 No. 49: 259.

[75] Interestingly, Meeter claimed that Chinese creditors viewed settlement proposals with suspicion. *When one of their countrymen defaults offering his, exclusively Chinese, creditors a settlement, then they will not accept this just like that without investigating the books first.* Should fraud be detected the settlement was promptly refused, but if no irregularities were discovered a settlement percentage would be determined in consultation with the defaulter (*De Java-Bode*, 28-06-1892).

[76] *De Java-Bode*, 16-06-1892; *De Java-Bode*, 26-07-1892; Meeter (1881: 11, 20–24, 47, 50–51).

agent reported extensively about a possible new wave of bankruptcies among Chinese traders in Surabaya.[77] This initiated a co-ordinated response from the European trading sector with tangible results. However, the three basic flaws of the import sector were not addressed. The importers were still far from acknowledging their own responsibility and instead blamed others. In this instance the colonial policy of restricting the movement of Foreign Orientals was considered to be against the interests of the European wholesalers. For the first time the Chinese themselves were let off the hook.

It was the arrest of the Chinese trader Oen Tik Kang towards the end of 1896 for suspected opium smuggling[78] and his subsequent financial insolvency that triggered events with wide-ranging implications not only for Surabaya, but for the trading sector at large. After his arrest all importers involved gathered to asses the situation. It was soon established that Oen Tik Kang was indebted for a total sum of *f* 306,000 backed by assets worth only *f* 110,000. This was not out of the ordinary and creditors did not express special concern about the amount involved which could usually be restructured to everyone's satisfaction. What worried them more was the effect of Oen Tik Kang's default upon the solvency of other traders. To prevent a domino effect prompt action was needed.

Oen Tik Kang's position was crucial because of his business dealings with Tjioe Toan Lok.[79] Heir to a great fortune, Tjioe Toan Lok was considered immensely wealthy as well as extremely greedy. His trading activities were mostly limited to the trade of ironware and petroleum which he imported and financed himself. But he had also ventured into plantations, buying coffee lands as early as 1890. And he engaged in money lending to other Chinese which might well have constituted his most important source of income. Tjioe Toan Lok's financial position seemed healthy enough, but such faith turned out to be unwarranted. The default of Oen Tik Kang immediately led to his insolvency. It was ascertained that Tjioe's liabilities amounted to *f* 1,000,000. His assets were estimated to be worth *f* 350,000 at most, not including *f* 85,000 owed by his debtors which probably could not be retrieved.

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77 NA/NHM 8018 No. 1090.

78 Oen Tik Kang – or Oen Tik Siang as he was also known – was ultimatley sentenced to 6 months detention, but not on the ground of violating the opium law. At the end of his trial he was found guilty of fraudulent bookkeeping because of a too high personal expense account (Borel 1900: 114).

79 BI/DJB 1358.

By now, the Chinese trading community of Surabaya was severely undermined. Another five Chinese traders threatened to go under and they would take with them an additional 20 Chinese and 2 European traders. The accumulated debt of these 29 entrepreneurs was calculated at *f* 2,488,000 with assets covering just about 38% (=*f* 935,850). These figures were alarming and the creditors were facing a huge loss. However, after lengthy deliberations they failed to find a way of settling Tjioe's arrears and filed for his bankruptcy. This signalled the defeat of the badly needed co-operation between importers as envisaged the year before.

A look at the total number of bankruptcies in Surabaya over the whole of 1896 gives a clear picture of the consequences.[80] In total 23 Chinese traders and one European trader had to close their business. Total credit extended in these 24 separate cases was *f* 2,316,248 of which 72% (*f* 1,672,009) was directly related to the cases of Oen Tik Kang and Tjioe Toan Lok. Only about 30% of the originally estimated debt of *f* 2,488,000 had been restructured by the wholesale importers as part of successfully negotiated debt settlements. The worries expressed by the importers in their meeting in October 1896 had clearly been justified.

According to the *Soerabaiasch Handelsblad* the financial loss incurred in 1896 by the European import traders was a devastating *f* 1,140,000.[81] Close to 50% of the total amount of extended credit (*f* 2,316,248) had to be written off. The Surabaya trading companies thus paid dearly for their lack of co-operation. The huge loss did produce a demonstrably short-term effect in the years to follow. In its report over the year 1898 the Handelsvereeniging Soerabaia wrote:

> In general the financial result over 1898 has not been unprofitable for Importers, who conducted their business on a sound basis and did not overestimate their clients regarding credit. [...] The attempts of the wholesale trade to be more careful with loans after the losses suffered by the countless defaults in the last few years apparently exerted a beneficial influence.

The available data show how much the European import sector had benefited by questioning the creditworthiness of clients and curtailing the extension of credit. Total loss due to bankruptcy dwindled considerably, amounting to *f* 679,196.25 in 1897, *f* 306,521.52 in 1898, and *f* 168,003.77 in 1899. The corresponding figure for 1900 was said to be modest as well, but 1901 and 1902 already saw a reversal of fortune with losses totalling

[80] NA/NHM 8018 No. 1090.
[81] *SH*, 01-05-1897.

*f* 1,144,923,- and *f* 1,717,070.01 respectively (*Jaarverslag Handelsvereeniging Soerabaia* 1899–1903; Fromberg 1926: 320).

The extent to which the shock of 1896 had finally worn off remains a matter of debate. However, the curtailment of credit resulted more from a tacit understanding than from a negotiated settlement among the members of the European trading community. No trace of a concerted effort in this regard was discussed.[82] Unbridled competition remained a stumbling block and rendered a long-lasting improvement unlikely. Still, a change was imminent albeit from an unexpected quarter.

In May 1897 the *Soerabaiasche Courant* reported extensively about the residencies in the Surabaya area where the *Opium Regie* was now in place. It was noted that the replacement of the farms had obliged the authorities to implement new regulations forbidding Chinese to visit the villages as well as some big market places. Moreover, existing movement restrictions were being upheld more strictly than before, especially in the city of Surabaya.[83] As a result, Chinese traders found it difficult to operate profitably in the countryside and pay back their loans. Soon European traders were confronted with insolvent clients who almost without exception blamed the government-imposed travel restrictions for all problems (Fromberg 1926: 427, 487; Liem Twan Djie 1947: 34). With a third party available as scapegoat, all participants in the wholesale trade rallied behind a single common goal.

Mutual interest led to a co-ordinated response of the import firms of Surabaya. The Handelsvereeniging – being the representative of these firms – decided to install a committee in order to investigate the matter thoroughly and submit a report which (after consultation with the Kamer van Koophandel of Surabaya) would have to persuade the government in Batavia to adopt a more lenient attitude when it came to Chinese business operations.[84] The underlying reasons for this initiative were neatly summarized by H.G. Bartelds in the *Soerabaiasch Handelsblad* on 30 April 1897:

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[82] It is telling that the one exception received a rather lukewarm response. In May 1897 Directors of DJB were informed by their agent in Makassar that the traders Waedle Frane & Co. had insured themselves in England against losses by bad debtors. Paying an annual premium of £ 150,- they were to be remitted 50% of their sustained loss with a maximum of £ 10,000,-. The Directors only remarked that it was doubtful whether this new type of insurance would find fertile ground in the Netherlands Indies and no further reference was made to the subject again (BI/DJB 70 Nr. 17: 50).

[83] *Insulinde*, 08-06-1897: 178.

[84] This section is based upon: *Insulinde*, 08-06-1897: 178; 15-06-1897: 186; *SH*, 29 and 30-04-1897; 01, 03 and 14-05-1897; *De Java-Bode*, 06-05-1897.

> The damaging regulations with regard to Chinese [...] selling their merchandise in the countryside are increasingly being felt by the import trade. [...] now the matter has been taken up and a [...] committee has been formed to point out to the heads of the different residencies in the Oosthoek that a change in this unbearable situation is required, or else big defaults are to be expected, [...] not only the current turnover of imported articles is suffering enormously from the enforced pass system, but the Chinese are unable to collect their outstanding claims in the desa. Thus small traders cannot honour their commitments, causing the second hand to suffer painful losses of which the wholesale trade ultimately becomes the victim. The enforced pass system, perhaps necessary to counteract the illicit trade in opium, is however harmful to trade which also contributes its contingent to the state coffers, therefore attempts to change the current situation are completely justified.

In the long run the importers' lobby seems to have produced some tangible results. The committee looked into complaints regarding the enforcement of pass regulations and conferred with the local government to reach a solution satisfactory to everyone (*Jaarverslag Handelsvereeniging Soerabaia* 1900: 13–14). In 1904 travel restrictions were significantly relaxed, leaving Chinese business operations in the countryside less troubled by discriminatory legal measures (Fromberg 1926: 427, 487).[85] Naturally the Chinese welcomed the efforts of the European traders, even though it was abundantly clear to all that pure self-interest had fostered the latter's support. For the Chinese it must have constituted renewed proof of their economic indispensability. As shown before, this recognition was strongly rooted in the collective memory.[86]

In the view of the general public Foreign Orientals (*Timoer Asing*) acted as middlemen (*Bangsa Tengah*) (*Encyclopaedie Nederlandsch-Indië* 1917: 481). The only countervailing force of significance came with the arrival of Japanese traders in large numbers from the 1920s onwards. Since they

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[85] It should be noted that Fromberg expressed caution in claiming that the Surabaya lobby decisively influenced the government's decision to soften the pass regulations. However, he did not doubt the fact that the wholesalers' action had made an important contribution to this change in policy. In the history of the Netherlands Indies the Surabaya case stands out as an early and probably successful lobby attempt which certainly warrants further exploration in the government archives.

[86] A well-known proverb at the time testifies to this as it read in Javanese: *Cina wurung, Londo durung, Jawah tanggung!* Or in Malay: *Jawa patjoet, Tjina koempoet, Blanda angkat!* The Dutch translated this maxim rather loosely into: *De Javaan ploegt en zaait, de Chinees vergaart* (*de oogst*) *en de Europeaan loopt er mee heen*. In other words: the Javanese toils, the Chinese collects and the European (Dutch) take(s) the proceeds. Leaving the Javanese according to an anonymous contemporary: *Koeti*, or nothing but trouble. See Fromberg (1926: 487), Didi Kwartanada (1996: 10), *SH*, 03-05-1897.

constituted a political and economic threat in the 1930s, the Dutch curbed their influence. The Chinese therefore retained their position as linchpin of the colonial economy although their relationship with the European segment of society did change. The Chinese struggle for economic and social privileges intensified markedly at the beginning of the twentieth century. The vigorous social strife amongst the Chinese themselves – provoked by the dismantling of the Revenue Farm system and the subsequent collapse of the Chinese elite (*Cabang Atas*) and aggravated by the influx of Chinese immigrants towards the end of the nineteenth century – was now partially diverted towards the Dutch. Growing Chinese self-awareness translated into growing Chinese assertiveness. The Dutch trading world was in for a surprise as the Chinese discovered the effectiveness of collective action.

### *The Chinese Boycott of the HVA*

> Typical of the changed relations within the Indies trading world is the conduct in 1902 of the Soerabaia based Chinese traders towards the Agency of the Handelsvereeniging Amsterdam [...] their attempt to lock out (to boycott) that office in all its dealings with import houses, and by that means to wage a real trade war, [...] could only be brought to an end by making substantial financial sacrifices.[87]

This characterization of N.P. van den Berg indicates a change in the long-standing commercial relations between Dutch and Chinese traders at the turn of the century. The description by the former president of DJB makes it clear that the Chinese challenged the ability of the Dutch to determine the terms on which business was conducted. From now on the European trading sector had to consider Chinese demands seriously.

Economic co-operation between the two continued, but the twentieth century also witnessed the rise of a more assertive Chinese generation. This change in Chinese mentality was the result of a complex emancipatory process rooted in the late nineteenth century. In order to explain the success of the boycott as a highly effective weapon in the hands of the Chinese and to comprehend its impact on the colonial establishment we need to consider the underlying causes in the Chinese community, before turning to the drawn-out boycotts of 1902–1904 and 1908.

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[87] Van den Berg (1907: 381–382).

*In Search of a New Identity*

Over the centuries the *peranakan* Chinese had (partially) lost some of the features attributed to Chinese in general such as language, cuisine, etc. A process of acculturation had undeniably taken place (Coppel 1997: 568–569). Still, in many respects the *peranakan* Chinese had remained recognizably distinct from the indigenous population, preventing full assimilation of this population group. Nor had they become more than superficially westernized. By all measures, the Chinese were considered different and – often overlooked – many continued to view themselves different as well.

Chinese separateness was caused by a number of barriers which tended to be self-perpetuating (Panayi 2000: 4, 101–105). Physical appearance constituted a major factor of importance, especially since the Chinese were not allowed to dress like the indigenous population or cut their long pigtail until the beginning of the twentieth century. The sheer size of the Chinese communities in Java was a factor which also made assimilation into Indonesian society less likely, as was the separate legal status of the Chinese with the accompanying settlement and movement restrictions. Language differences remained a hindrance as well and contributed to the detachment of the Chinese. Even *peranakan* Chinese kept distinguishing themselves in the way they used and/or combined local languages (Coppel 1997: 569–571; Rafferty 1984). *Totok* or *singkeh* Chinese, who had just arrived in the country, experienced more problems in communicating with the local population, despite the fact that this obstacle diminished with their growing command of the language. Nevertheless, large numbers of Chinese only knew as much of the language spoken locally as to enable them to conduct their business (Alting Mees 1884: 4, 6).

Religion certainly was also a contributing factor to a separate Chinese identity.[88] The majority of Chinese never felt inclined to convert to Islam. Admittedly there are traces of a centuries-old *peranakan* Muslim subculture and of a rather successful Islamization process, even evoking a resinicization attempt in the second half of the nineteenth century (Lombard & Salmon 1994; Salmon 1996; Salmon 1997: 160–161). Towards the end of the nineteenth century most Chinese were however reluctant to identify themselves with the indigenous masses as they preferred to direct their energy towards the cultivation of a good relationship with the colonial

[88] See Niemeijer (2005: 223–241) for examples of this in Batavia during the early VOC-period.

rulers. Besides, many were no doubt convinced of the superiority of Chinese culture (Coppel 1997: 569).

The divide between Chinese and the indigenous population was further strengthened because of their different economic roles. The Chinese were predominantly traders, living in an urbanized environment. In 1900 only one fifth of Java's Chinese resided outside the principal cities and towns and nearly one-fifth were concentrated in the island's three main cities: Batavia, Semarang and Surabaya. The Javanese, Sundanese and Madurese were for the most part peasants, living in small villages. From these different economic positions originated mutual dependency relations, which the Chinese trader could often control to his benefit (Williams 1960: 11, 13–15).

Before 1900 ethical, economic and demographic pressures came to bear upon the Chinese. With their economic position under repeated attack and their public image suffering badly, the Chinese felt a growing need to protect their interests. The undermining of the economic position of the Chinese had started with the opium farm failures of the 1880s and the attacks upon the system of revenue farming. The wealthiest Chinese had invested heavily in opium farms, pawnshops and other licensed enterprises, but between 1896 and 1904 a great deal of their capital was freed because of the termination of revenue farming. Businesses were forced to close and Chinese financial losses were heavy. Many employees of the farmers lost their jobs and the farmers themselves lost their semi-official status and thereby "their power in the eye of the common man."[89] The chronic defaulting of Chinese retail traders in the 1890s further weakened the Chinese economic basis and seriously hurt their image of capable and trustworthy partners. Occasional outbursts of racial hostility aimed at Chinese commercial activity consequently added to their insecurity.

A shocking example of bigotry aimed at the Chinese came from the Indo-European segment of the population in 1896. This impoverished minority within colonial society struggled to survive and rationalized its situation by accusing others. The Chinese retail traders in particular were held responsible for the increasing distress of Indo-Europeans. The Semarang newspaper *De Telefoon* which acted as the mouthpiece of the Indo-Europeans provided ample opportunity to vent all the frustration and fury of this part of the population (Termorshuizen 2001: 181–183, 417–425, 825–826; Bosma and Raben 2003: 281–283; Bosma 1997: 42). Under the

[89] NA/MIKO 5037, V 17-04-1896, No. 27.

pseudonym of 'Momus' a particularly vicious attack against the Chinese was launched on 25 January 1896.[90] The article on the front-page called for the unification of all Indo-Europeans within a so-called 'Indische Bond'. This initiative was co-ordinated by one of the newspaper's editors, G.A. Andriesse, who in all likelihood used the name 'Momus' as his *nom de guerre* (Termorshuizen 2001: 186; Bosma 1997: 41).

Momus' lead article was an outcry against the 'filthy' practices of Chinese traders of which numerous examples were given. Indo-European shopkeepers, for instance, were unable to withstand the Chinese. According to 'Momus' competition was not tolerated by the Chinese and their numerous secret societies, who ruined anyone who challenged them. As consumers, Indo-Europeans were cheated by the high prices and bad quality of products offered by the Chinese. Allegedly, food and beverages were often sold as well-known brands by using forged labels. Since the Indo-Europeans could not expect any favours from easily bribed civil servants, they should now take matters in their own hands:

> If there is no compensation for the trade of the Chinese, the Indo will be [...] reduced to poverty even more, and we will become the slaves of the most immoral race in the world. [...] that despicable race, those perpetrators of theft, treachery, forgery and a thousand other dishonesties.[91]

'Momus' argued that the retail trade had be wrested from the hands of the Chinese in order to become the pre-eminent source of existence for the Indo-European. After all, the Indo-European was able to do whatever the Chinese did, only without the customary cheating:

> Next to [running] a small shop, the Indo too can hawk his goods carried by coolies, he too can travel the hinterland, and surely he will never be able nor want to cause the evil of the Chinese, whose travels in the hinterland always include smuggling or the trade in young Javanese girls.[92]

On 5 and 20 March 1896, *De Telefoon* published an even more offensive description of the Chinese in rhyme and partly in language parodying Chinese-Malay.[93] These two 'poems' of 144 and 46 verses respectively displayed the usual routine of verbal abuse and wild accusations. This time however racist attitudes were expressed very explicitly: Chinese were not just ascribed all kinds of negative characteristics, but demonized.

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[90] *De Telefoon*, 25-01-1896.
[91] *De Telefoon*, 25-01-1896.
[92] *De Telefoon*, 25-01-1896.
[93] *De Telefoon*, 05 and 20-03-1896. The cited examples are from the first and longest poem published on 05-03-1896.

They were called half human, half animal, compared to horses, pigs and vampires and at one point described as pigtailed caricatures. By stripping the Chinese of all humanity, *Oomme Karl* or 'Uncle Carl' (i.e. the author's pseudonym) not only magnifyied their evil deeds, but also made it easier for the reader to denounce everything Chinese.

His depiction of the successful Chinese trader and how he attained his wealth is very indicative of the way well-to-do Chinese were regarded by the general public. In his view, opium smuggling lay at the core of Chinese prosperity. He portrayed the "expatriate Singkèk beast" pot-bellied, sitting on his money, while chanting the following words:

Akkoe tjêkalang kaja.
Ata loewie, panja panja.
Ommà toewéé, panja loewie.
Dali mana, tà pêtoelie!

Toeloe, akkoe tita poenja.
Tjikoä, soesa, soesa!
Smokkel opjoen panja.
Tjêkalang laèn loepa!!!

Translated, it gives the following statement:

> Now, I am rich. I have got a lot of money and many houses and where it came from does not matter. Before, I did not have all this; hence I had worries! By smuggling lots of opium, all that is forgotten now!!!

On two occasions, *Oomme Karl* specifically referred to the crisis in the import sector, seeing malicious intent in the high incidence of bankruptcies amongst the Chinese retail traders.

De handel is een schone zaak,
Doch schaff' zich zelve geen vermaak,
Als Chinésen, bij exemplaren,
zich voor failliet lieten verklaren.
Van daar zucht Handel, steen en been,
Over Chinaman – in 't algemeen,
Die den Handel zoude bedriegen
En hunne boeken meê lieten liegen.

Wil Men ze NU kondamnéren,
Dan gaan ze dad'lijk procédéren,
En lachen, met Oomme, tot Besluit;
Heel Raad van Justitie lekkertjes uit.

A summary translation reads as follows:

> Trade is a fine business, if only Chinese would not declare themselves bankrupt in great numbers. Therefore, the trading business is complaining

> bitterly about the Chinese in general, as they deceive the business and falsify their books.
>
> If you want to have them condemned, they will take legal action immediately. And, like Oomme, in the end they will laugh at the Council of Justice.

*Oomme Karl* ended with a rather ominous suggestion on how to solve this pressing problem. In the last two verses he simply proposed the gallows as the definite solution to both crime and Chinese deception. Needless to say such outbursts of extreme hostility were frightening. Although the Chinese had learned to live with a negative public image, the attacks turned so ugly that they could not be ignored any longer.

At this point, Chinese grievances started to mount.[94] Among the most frequently voiced were the increase of racial discrimination under the Ethical Policy and the intensification of the Pass and Zoning System. Other complaints were aimed at the fact that the Chinese– barring cases of commercial dispute – fell under the jurisdiction of the indigenous courts. This placed the Chinese among the indigenous population which was resented as well as the fact that these courts were ultimately tools of the administration.

Another complaint was the high burden of taxation. Like the Europeans, Chinese were obliged to pay *personeele belasting* or personal property tax from which the indigenous population was exempt. Chinese also had to pay *bedrijfsbelasting* or business tax which Europeans had to pay as well, but they were taxed on a different basis and more lightly.[95] This injustice was felt even more as the Chinese saw hardly any return on their tax money. The colonial government provided few services and only a tiny minority benefited from them. This minority was composed almost exclusively of the European and Europeanized elements of society and certainly did not include the Chinese. For example, it was not until 1902 that the authorities could be persuaded to place three mail boxes in the Chinese quarter of Batavia. A small and belated service for a bustling neighbourhood of well over 27,000 inhabitants as early as 1892 (Williams 1960: 27, 36).

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[94] For a lengthy introduction into the origins of the Chinese movement, see Fromberg (1926: 405–470, 475–490) and Kwee Tek Hoay (1936–1939) as translated by Williams (1969: 1–12).

[95] In 1906, every Chinese earning more than *f* 25 a year had to pay 4% business tax. Europeans needed to earn more than *f* 900 a year before they were taxed according to a progressive rate. With an income of *f* 900 only *f* 1 a year had to be paid, whereas the highest incomes paid barely 3% (*De Locomotief*, 16-02-1907). A summary of the colonial tax regime is provided by Diehl (1993: 203–205).

The Chinese also objected against the lack of education of their children. This was considered to be of great importance as status among the Chinese was traditionally equated with education (Godley 1981: 39). Even outsiders could not fail to notice the high level of literacy amongst the Chinese. As early as 1830 one Dutch observer commented how remarkable it was that most Chinese immigrants in Java were capable of reading and writing their own language, notwithstanding the fact that they were generally poor and of low social status.[96] The colonial government however was not inclined to make any significant arrangements and no funds were allocated to the education of Chinese children.

These grievances became a potent force in the mobilization of a nationalist attitude. In addition, Chinese discontent was increasingly fuelled by the example set by Singapore and Penang. The Chinese under British rule enjoyed far greater economic and social freedom than the Chinese under Dutch rule. They received (relatively) equal protection before the law and were not bothered by movement and/or settlement restrictions. Compared to China or the Dutch colony, Singapore and Penang were remarkably open societies with a vibrant Chinese press and a well-organized Chinese lobby. Education in English was made available as early as the 1840s in Singapore and the Chinese in the Straits Settlements were even given some representation in municipal government. These examples demonstrated that discrimination and insecurity were not the inevitable fate of overseas Chinese (Godley 1981: 24–25; Williams 1960: 42–44).

Information from China would be channelled through Singapore before reaching the Netherlands Indies. In 1895 Japanese forces defeated imperial China showing the world the weakness of a decaying dynasty. An imperialist scramble followed, treaties were signed and China's interior was forced open to foreign traders. After the conclusion of the First (1839–1842) and Second Opium War (1856–1860) they could conduct business in China but only from so-called treaty ports (Beeching 1975). After the Boxer uprising in 1900 China became exposed to even greater Western penetration. The Chinese government was forced to reappraise its traditional stance, but the imperial onslaught on China proved to have wider ramifications.

China's defeat by Japan caused many Chinese to reflect on their country's place place in the world as well as their own. A strong and independent China might offer protection or at least prestige to those living abroad. The one thing virtually all overseas Chinese came to share by the

[96] NA/MIKO 3042.

year 1900 was a connection with the fate of the ancestral homeland. Before 1911 both revolutionaries and the imperial government made repeated efforts to exploit this renewed interest by trying to win the support and tap the wealth of the overseas Chinese (Yen Ching-Hwang 1982). This desire coincided with the needs of these communities themselves. Their primary concern was the improvement of the lot of the local Chinese. Although people were anxious to learn about events in China, their interest fluctuated strongly as it was not always possible to identify the welfare of the overseas Chinese with that of the Chinese state (Godley 1981: 46, 54–55; Williams 1960: 45, 112–113, 146).

These feelings manifested themselves among others in the collapse of the officer institution and in a strong Confucianist revival. The officer system had been seriously weakened by the economic crisis of the 1880s, the disappearance of the revenue farms – the officers' main source of income – and the social threat of non-affiliated Chinese immigrants. However, the Chinese officers lost their leadership position because they principally served Dutch, not Chinese interests. Notwithstanding their penchant to donate impressively to charity, they never sought to improve the general conditions under which Chinese had to live. The institution of Chinese officers did not reflect the spirit of times and was past reform. It had become outdated, or more eloquently put: "[…] *ia ada satoe boentoet jang katinggalan dari Oost Indische Compagnie dan dari despotisme Tionghoa koeno* […]" ( "[…] it was like a tail left from the VOC and the despotism of ancient China […]") (Lohanda 1996: 225+ Godley 1981: 38–39).

Until its final abolition on Java in 1934, the Dutch attempted to check the decline of the officer institution by making it more attractive to hold rank. In 1908 officers were granted special rights of travel and residence, as well as the right to appear before a European court of law. Their children could attend European primary schools and to enhance the officers' prestige it was decided to give them official uniforms. The last measure did little to impress the Chinese and might have given cause for ridicule. The extension of privileges to the officers was an outright failure, estranging the officers even more from the general Chinese population as they alone were granted the rights demanded by the entire Chinese community (Lohanda 1996: 224–257; Williams 1960: 124–136, 171–172).

In its earliest stage Chinese nationalism in the Netherlands Indies took the form of a Confucianist revival. It has been said that the resurrection of Confucius served three purposes: to dignify nationalism with a cover of antiquity, to conceal its Western inspiration, and to put forward a respected and familiar symbol. Knowledge had to be furthered to prevent

the Chinese from remaining ignorant or in an inferior position. Singapore led the way with the establishment of a Confucian religious society in 1898, Soon the Chinese in Java followed. On 17 March 1900 a society for the promotion of Confucian thought and conduct, or Tiong Hoa Hwe Koan (THHK), was founded.[97] This date marks the establishment of the overseas Chinese organized movement in the Netherlands Indies. The THHK immediately took the lead in the struggle for educational reform and the first modern Chinese school was opened on 17 March 1901.

In 1907 the first Chinese chambers of commerce (Siang Hwee) were opened.[98] Besides economic purposes Siang Hwee also had a distinct political goal. Designed to serve as agents of the imperial Chinese government they functioned as Chinese consulates until normal consular representation was established in 1912 (Yen Ching-Hwang 1985: 177–203). In 1909 the first Soe Po Sia or 'reading room' was founded and within a few years 52 could be found in the archipelago. This kind of association was designed to operate as a political party and was primarily oriented towards China and the revolution. Soe Po Sia soon won a reputation for sharp criticism of the Dutch authorities and of their allied Chinese officers (Godley 1981: 125–126; Williams 1960: 57, 66–109; Williams 1969).

The press was an important medium in this respect as different Soe Po Sia established four major newspapers in 1909: *Hoa Tok Po* (Batavia), *Djawa Kong Po* (Semarang), *Han Boen Sin Po* (Surabaya), and *Sumatra Po* (Medan).[99] All newspapers appeared in Chinese, although Malay editions were also published in Batavia and Surabaya to increase readership. The Semarang newspaper was forced to stop its circulation a few years after its inception due to the local absence of a public literate in Chinese. The Chinese-Malay press included several other newspapers highly critical of the Dutch and the Chinese officers.[100]

Whereas the pioneering work of the THHK was directed towards sociocultural goals, the Siang Hwee and Soe Po Sia were more preoccupied with

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[97] See Coppel (1981), Williams (1969: 13–21), Lombard-Salmon (1971), Lohanda (1996: 110–126), Williams (1960: 54–63).

[98] Individual Siang Hwee were also called Siang Boe by the Dutch. This inaccurate designation derived from the name of the general association of Siang Hwee: Siang Boe Tjong Hwee (Williams 1960: 103).

[99] See Adam (1995: 71–78), Hoogerwerf (1990: 139–141), Maters (1998: 39–42, 182–185), Lohanda (1996: 233–235), Williams (1960: 108–109).

[100] The *Pewarta Soerabaia* (1902) and *Sin Po* (1910) in Batavia were critical regarding the system of Chinese officers. Two Semarang newspapers, *Djawa Tengah* (1909) and *Warna Warta* (1902), followed a middle course with a less hostile expressed anti-officer feeling. The *Kabar Perniagaan* (1903) in Batavia was probably the only protagonist of the officer system, since it was owned by several Chinese officers from Batavia.

economic and political aspirations. The slow process of education obliged the THHK to opt for a long-term policy in contrast to the Siang Hwee and Soe Po Sia who tended to meet specific challenges and were most active in times of crisis. Despite these differences all pan-Chinese associations succeeded in furthering the mobilization of the Chinese. In their struggle for economic, social and political elevation the Chinese confronted the Dutch with the unified strength of their pan-Chinese associations. The Chinese community was no longer fragmented and inarticulate. It would take the Dutch some years and a well-executed boycott to grasp this new reality (Lohanda 1996: 232; Setiono 2003: 363–37; Williams 1960: 95, 188–189).

*Confronting each Other*

Pressure was only sparingly applied by the Chinese, usually in the form of trading boycotts. Most of these group actions were small-scale with very limited local implications. The great majority was not unanimously supported, ill-organized, and easily by-passed due to the extreme competition among traders of all calibre. Many collective attempts just faded away without being noticed. But, each and every time a boycott was announced, the Dutch were reminded of the potential of Chinese collective action. The establishment of Chinese chambers of commerce all over the Netherlands Indies, made the Dutch even more aware of the threat of economic boycotts.

There was nothing particularly new about Chinese retail traders boycotting Dutch import houses.[101] On 13 May 1884 the *Soerabaiasch Handelsblad* reported "a curious alliance" of Chinese traders, noting that 35 highly reputed Chinese merchants had pledged not to order anything from a certain Dutch import house for the time being. In addition, all those participating had submitted themselves voluntarily to the payment of a heavy fine should they breach their promise. The background

[101] One of the earliest recorded Chinese boycotts took place in Batavia in 1655 and was aimed against the existing trading practices of the VOC. The Chinese traders involved resisted the fact that only a limited part of textile shipments from India was publicly auctioned after which high-ranking VOC-personnel would secretly buy the remainder against lower prices. This course of action naturally gave the latter a financial advantage upon resale of the aquired goods. The Chinese textile traders decided no longer to buy from the VOC upon payment of a fine. Despite the agreed penalty for breaking the boycott it lasted only eight days. When the agreement came to the knowledge of the Dutch the three initiators of the boycott – Lacco, Oeco and Simko – were charged with undermining the trade monopoly and authority of the VOC and ordered to pay one hundred and fifty *rijksdaalders* (Niemeijer 2005: 228–229).

was purely commercial. The Dutch firm had refused to prolong an outstanding loan of *f* 15,000, demanding immediate repayment either in cash or in goods. This was very much against custom, especially since the creditworthiness of the Chinese trader in question was very high. He had been extended a credit of several hundred thousand guilders. Although repayment of *f* 15,000 had not constituted a problem, he felt wronged as the affair would affect his reputation and credibility. After proving to his fellow traders that the forced settlement had not been warranted by any malpractice from his side, he persuaded 34 of them to join in a boycott. In the eyes of the newspaper this showed: "An esprit de corps among Chinese merchants that deserves general attention as a sign of the times."

Three days later the Surabaya office of DJB reported to Batavia on the same matter, identifying the Chinese retailer Feng Eng Kiong and the wholesale firm of J.W. van den Brink.[102] The agent spoke of mixed European feelings with regard to the boycott and pointed out that while some competitors of Van den Brink were gloating, others strongly disapproved of "the actions of a few insolent Chinese." Although he certainly regretted the steps taken by the Chinese, he also proclaimed that he could not think of any argument to deny anyone – not even Chinese – the right to buy whatever he wanted, wherever he wanted. Furthermore, he did not wish to disturb trade in any way and therefore declined to take action against the boycotters, despite the fact that he had been pressured to refuse them (prolongation of) any credit. The agent exhibited little immediate concern. As the boycott was aimed at a single firm of little relevance, it did not obstruct the trading business in general and could only inflict limited damage. In his correspondence no mention was made of the "curious Chinese alliance" again, and it probably blew over.

The Chinese *esprit de corps* to which the *Soerabaiasch Handelsblad* referred was still a far cry from any powerful general movement in defence of Chinese (commercial) interests. This limited kind of collective action was ad hoc and easily manipulated. An interesting example has been described by H. Borel, who worked as an interpreter of Chinese in Surabaya in the late 1890s (Borel 1900: 105–116). As the official responsible for Chinese affairs he was regularly summoned to hearings of the Council of Justice in order to provide expert advice concerning Chinese bankruptcies. Like his predecessors, he investigated the account books of numerous Chinese traders who failed to honour their commitments. In the

[102] BI/DJB 1357.

process he acquired intimate knowledge of the trading system in general and Chinese business operations in particular.

Early 1898 Borel stumbled upon the case of the ironware trader Ho Tsai Ing who had defaulted in the preceding years and now offered to settle for the third time. The previous settlements had led to a reconstruction of his debt and seen repayments of 30 and 40% as part of the agreement. This seemed a quite reasonable percentage under the prevailing circumstances, but it became known that on both occasions friendly trading partners received a full 100% of their outstanding debt. In other words Ho Tsai Ing showed no scruples in concluding a so-called *sluipaccoord*, to the detriment of other creditors. Borel regretted that this kind of behaviour was not punishable by law and that it had become common practice among Chinese and European traders alike. He pointed out that both parties were to blame and that they were well-matched when it came to cunning business practices.

Ho Tsai Ing's proposal to settle his arrears once again was accepted by all but one of his European creditors. One trading firm had the books examined by an expert – most likely Borel himself – and decided to press charges. Ho Tsai Ing's business boasted an annual turnover of more than one hundred thousand guilders, but he had only surrendered a list showing how much he owed his European creditors and how much he could claim from his Chinese and indigenous debtors. For want of other books it turned out to be impossible to make a reliable assessment of his total assets and liabilities and judge whether he had masterminded his own default. It was suspected that he had withdrawn capital from the company for his own personal benefit. Ho Tsai Ing, however, claimed not to possess any other books and simply declared that he had no need for them and only required the book already turned in.

Borel found this utterly unbelievable. The fact that no ledger, cash book, stock register or balance sheet was present indicated fraudulent intent to him. It remained a mystery how much merchandise was supposed to be in stock, or what amount of money had to be in cash. There was no telling if Ho Tsai Ing had pocketed money that was not his or had already cashed (part of) his company's assets. Fraud was also suspected since Ho Tsai Ing had recently made a habit of buying on credit and selling for cash below prevalent market prices. Such transactions were proved as European firms had to hand over receipts showing all cash payments made to Ho Tsai Ing during the last six months. It turned out that Ho Tsai Ing had sold over *f* 12,000 of ironware priced far too cheaply. He refuted this incriminating evidence by saying that he had merely intended to

clear his old stock at low prices. According to him all the merchandise sold had been purchased long ago, at least more than six months before. With the absence of a stock register this could of course not be disproved and Ho Tsai Ing remained in the clear.

Notwithstanding this legal haggling, the European trading firm on whose behalf the inquiry had been conducted found ample reason to bring the matter to court. Borel noticed that this was not at all appreciated by one of Ho Tsai Ing's biggest European creditors. He was truly aghast to see countermeasures taken by this particular firm. It managed to persuade the leading Chinese retail traders of Surabaya to sign a notarial deed, requiring them – under penalty of a heavy fine – to boycott the firm planning legal action against Ho Tsai Ing. No matter how blunt this strategy was, it worked wonderfully well. In order to avoid the boycott, all charges were dropped. The case was nevertheless continued by the public prosecutor who accused Ho Tsai Ing of misleading his creditors and of embezzlement, and for having destroyed his account books. These accusations did not hold for lack of proof. After months of deliberation the judges could only find Ho Tsai Ing guilty of failing to keep adequate account books, for which he was sentenced to six months of forced labour. At this point the misled creditors went as far as to petition for a pardon in a final attempt to see their claims recovered. This was not granted and Ho Tsai Ing was declared bankrupt in the end.

With the introduction of the Cultivation System in 1830, Surabaya had begun to profit from the rapid growth of commodity production. The city served an extensive sugar- and coffee-producing hinterland whose output was exported through its harbour. Around 1900 Surabaya had thus become the foremost city of Java by population and volume of trade. The city's prosperous urban economy was based on trade and associated services and was sustained by the rapid development of plantation agriculture in the hinterland until the economic crisis of the 1930s. In 1905 total population amounted to 150,200 with a European community of around 8,000, a larger community of Chinese of some 15,000 and almost 3,000 Arabs. By contrast, Batavia had only 138,000 inhabitants and Semarang 96,850.

Until the establishment of the Municipality (*Gemeente*) in 1906 Surabaya had no urban government. The city and its rural hinterland were part of the residency of Surabaya and administered very loosely by the Dutch assistant-resident and his Javanese counterpart, the regent (*bupati*). All matters of government were therefore the responsibility of the omnipotent *Binnenlands Bestuur* which was increasingly undermanned and

underqualified (Van Doorn 1996: 105–107).[103] Its role was extremely limited and hardly went further than maintaining law and order, raising taxes and providing basic public infrastructure such as bridges and roads. The government was only minimally involved in economic life. Trade was organised by European and Chinese firms under contractual arrangements which completely bypassed the colonial bureaucracy (Dick, 2002). At the turn of the century the city of Surabaya was an important trading centre with a strong Chinese influence especially in the merchant community, but also in the ruling indigenous elite as a result of intermarriage and the conversion to Islam (Ong Hok Ham 1982: 284–290; Salmon 1991a).

Most Chinese within the Surabaya area earned a living in trade. This had been the case for many generations, but was even more true for the *totok* Chinese, who had recently arrived from the China mainland. In the course of time the wealthy *peranakan* families, such as the Han, The and Tjoa, had diversified their invested capital into a whole range of different business undertakings (Ong Hok Ham 1982; Salmon 1991a). By contrast, almost all newly arrived Chinese sought their fortune in trade. From the last decades of the nineteenth century they started to put their mark on the Surabaya trading scene.

Names associated with this new development included Go Hoo Swie who arrived in Java in 1874 and operated an import-export company under the name Yan Tjwan Eng from 1880 onwards. His firm exported coffee and sugar to China, the Straits Settlements and British India, while importing rice, matches and flour. At the same time, the company carried on an extensive trade in indigenous products in Java's interior. Another well-known entrepreneur was Tjan Tjiauw Tjwan who established the firm Bang Hong Hin in 1889. Acting as an intermediary between China and the Netherlands Indies he worked with a partner in China and one in Malang. His main interests lay in the rice, tobacco and fish trade, as well as in the import of Chinese products in general. He opened branch offices in Amoy (Xiamen) and Bagan Si Api-api, Sumatra at the start of the new century. Still another name was that of Tan Tjoen Gwan who started a business in

[103] Even at the beginning of the twentieth century the *Controleur*, the representative of the colonial civil service *par excellence*, was a true jack-of-all trades. His workload included police matters, taxes (assessment, collection and payment), cultivations (general condition, irrigation, tests, harvest, sale, market prices), agrarian concerns (exploitation, rights of ownership, lease of land), labour services (maintenance of roads, canals, etc.), live stock (diseases, feed, theft), state of public health, etc. To attend to all these matters with equal diligence proved impossible as there were too many tasks which increasingly demanded specialist attention (Van Doorn 1996: 106).

1873 and was active in the wholesale trade of primary products, alcohol and chinaware distributed all the way to the Moluccas and Kalimantan. An equally impressive tradesman was Tan Hian Goan whose wood concessions and saw mills were exploited through his N.V. Handel Maatschappij San Liem Kongsie.

More newcomers worth mentioning were Djie Hong Swie, who arrived in 1886 and soon conducted a general import-export business with China by means of a network of agencies all over East Java. The Tjio family founded the large and very successful Handelmaatschappij 'Djoe Tik' in 1885 and built up a chain of companies under the name Hap. They traded rice and sugar with Singapore, Hong Kong Saigon and Bangkok, using their own ships to transport these commodities. Ong Tjieng Hong was mainly active in the rice trade with Rangoon, Siam and Saigon, operating on a grand scale with his Chop Hoo Bee enterprise. In addition, he owned a sugar factory in Malang as well as a rice mill in Surabaya. Finally, Tio Siek Giok should not be forgotten. He specialized in the wholesale trade of primary products and wine and was not only the official supplier of the railway industry in Java but also of the army canteens (Wright 1909: 545–550; Feldwick 1917: 1167–1172).

With the ascent of such entrepreneurs the *totok* element within the Chinese society of Surabaya attained more influence. Although the representatives of the old *peranakan* families still held powerful positions they could no longer act as the spokesmen of the Chinese. Collective life was increasingly determined by a new generation of entrepreneurs who were less entangled with the colonial bureaucracy and less content with the existing situation. They retained vivid memories of China which made them susceptible to pan-Chinese ideas. Their Chinese identity was affirmed in their generous contributions to the establishment of a Confucian temple in 1899, the building of a Chinese school in 1903 and the founding of a Chinese Chamber of Commerce in 1906. In addition, *totok* Chinese took the lead in the HVA boycott of 1902–1905 and 1908. In the execution of these boycotts the new generation decided which path to take and ultimately determined its outcome (Salmon 1997: 162–165).

### *"Bikin Mati Toko Amsterdam"*

By means of a trading boycott of the HVA the Chinese 'second hand' of Surabaya aimed to destroy one of the most important Dutch trading companies in the Indonesian archipelago (Setiono 2003: 363–365). Pamphlets distributed in Java's interior in June 1904 among Chinese 'third hand'

traders were very clear about this. Those participating in the boycott did not mince their words. Their aim, which they tried to achieve for nearly two years, was "to finish off the Amsterdam shop" (*Bikin mati toko Amsterdam*). The only reason they had failed so far – as the word on the street would have it – was the fact that the Chinese had run "into the wall of millions behind which the Handelsvereeniging Amsterdam has entrenched itself". According to public opinion the HVA would have been forced into submission long ago had it not been for its financial leverage.[104]

Preparations to boycott the HVA had commenced in the second week of August 1902 and became publicly known with a small announcement in the *Soerabaiasch Handelsblad* on 13 August 1902. Under the title 'A boycott movement' editor M. van Geuns reported that Chinese retail traders had recently started to organize themselves in an attempt to deny the HVA any future orders. For the moment the initiators remained anonymous. Two Chinese traders apparently disgruntled for being denied large and long-term credits by the HVA together with another dissatisfied accomplice, were designated as the main instigators. However, rumour had it that an unknown European competitor of the HVA actively encouraged this by inciting hesitant traders to sign the boycott agreement. In Van Geuns' opinion this was typical of the sour relations within the Surabaya trading world.

According to Van Geuns the activities of the HVA that had given rise to the present trouble all came down to a change in credit policy. Shortly before, the HVA had decided to start extending short-term credit of one to two months only,[105] while simultaneously reducing the amounts involved. On top of that questionable default settlements were to be refused irrevocably. Van Geuns considered these measures not only justifiable but also very sensible in the light of the default epidemic that had plagued Surabaya for years. The endemic nature of this situation demanded a solution and he doubted that the boycott would be successful. If it did quick communication by rail and steamer would ensure that the HVA did not have to fear being left with unsalable goods.[106]

Upon receiving further information Van Geuns came up with a somewhat different account the next day. Unidentified sources had brought to his attention that the change in credit policy was not the sole reason for

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104 *SH*, 21-05-1904.

105 This period was considered to be extremely short. A meeting of importers held on 26 August 1902, a few weeks after the boycott had commenced, discussed sales conditions but could only agree upon a maximum running period of five months. Apparently, this constituted a significant curtailment of credit (BI/DJB 5143, 27-08-1902).

106 NA/NHM 2460, 27-08-1902; *SH*, 13-08-1902; *SH*, 30-08-1902.

targeting the HVA. There were other considerations and these were less favourable for the HVA. First, it was pointed out that four of the wealthiest Chinese traders in Surabaya – estimated to be worth half a million guilders each – were among the first to have signed the contract, whereas they never bought on credit. Second, British firms had always adhered to a short-term credit policy, but apparently managed to accommodate the wishes of their Chinese customers nonetheless. Third, in the past the HVA had been all too happy to accept settlement proposals on the condition that any outstanding debts would be repaid in full. On account of this practice fellow creditors had lost substantial amounts which of course had created bad blood among the European traders. Fourth, the HVA had lately been accused of trying to bypass the Chinese 'second hand' in Surabaya by conducting business with traders in the interior. According to this rumour the latter were given wholesale prices which prevented the Surabaya traders from closing any deals in the countryside.[107]

More in general there was an unsubstantiated number of grievances against the practices and attitude of the HVA that had been building up for a long time. The general perception was that the firm ignored existing trading practice and tried to fleece people by extracting every last cent. The company had thus acquired a reputation of being conspiratorial, petty, and mean. This inconsiderate behaviour caused many to feel mistreated although most of these cases came to very little upon closer inspection. The proverbial last straw came when the HVA caused Ko Khoen Siong, a second level trader in victuals and beverages, to go bankrupt over an unpaid debt of *f* 31.[108]

The HVA was universally lambasted for taking this matter to court. But there was more to this case than meets the eye. Ko Khoen Siong had operated a small trading business of dubious solidity and he had already defaulted twice. The last occasion had been in January 1902, less than 9 months before he failed to meet his small debt to the HVA. At the time he had reached an agreement to pay back 40% of his outstanding debt, allowing him to resume business immediately. Satisfied that they would at least see some of their money, the creditors involved gave him new

[107] In one instance this accusation was indeed verified. A Chinese merchant complained that he had been sold matches in bulk against *f* 96 a box, whereas the product was simultaneously offered in the countryside for three guilders less. He was later proven right. The HVA admitted this price difference, but attributed the discrepancy to price fluctuations on the market (*De Locomotief*, 22-12-1908).

[108] NA/NHM 2460, 27-08-1902; *SH*, 14-08-1902; *De Locomotief*, 22-12-1908; *Weekblad voor Indië* I 5 (29-05-1904) 4.

supplies and at the end July Ko Khoen Siong was again indebted for the considerable amount of *f* 65,544 (*Jaarverslag Handelsvereeniging Soerabaja 1903* 1904: 64).

Not everyone agreed with this course of events. Another Chinese trader in victuals and beverages with an impeccable reputation and high credit rating complained bitterly that Ko Khoen Siong profited disproportionately from this state of affairs. First of all, he had been relieved of the obligation to pay back 60% of his debt which he had probably cashed in for a substantial part and transferred to China already. This suspicion might well have been true, because Ko Khoen Siong had left for China a few months after his second settlement and only responded to the repeated requests of the HVA by sending telegrams containing the message: *Belom ada oewang* ("There is no money yet"). Secondly, the docility of his creditors had not only enabled him to stay in business but also encouraged him to compete unfairly by selling below the prevailing market prices. In order to guarantee the swift payment of debts upon their expiry date a high rate of turnover was necessary. As long as a sufficient cash flow was generated regular payments were possible which in turn made it easier to obtain larger credits over longer periods. To Kho Khoen Siong it was of little consequence that this house of cards would come down eventually, for the only penalty would be the renewal of settlement negotiations.[109]

The Ko Khoen Siong case once again laid bare the chronic shortcomings of the Surabaya trading and banking business. On Friday 29 August 1902 the editor of the *Soerabaiasch Handelsblad* received an anonymous letter signed by 'A Trader'. It made an appeal to the European traders to finally start co-operating with each other in order to put the trading business on a more healthy basis. The writer stated that there were too many Chinese traders without money and good intentions who counted on the gullibility and willingness of *Toko Blanda* (Dutch trading companies). This simply led the Chinese to "[…] sell at any price to get cash and pay one or two acceptances, in order to obtain credit to a much larger amount."[110] All import houses should break the old habit of recklessly extending credit. Import needed to be in proportion to consumption and sales should be effected on the short-term only. Last but not least, whenever credit was extended the solidity of the buyer should be taken into account.[111]

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[109] Ko Khoen Siong did settle for a third time by promising to pay *f* 6,554.40, i.e. a meagre 10% of his debts (*Jaarverslag Handelsvereeniging Soerabaja 1903* 1904: 64).

[110] *SH*, 30-08-1902.

[111] *SH*, 30-08-1902.

Little than a week later, early in the morning of Wednesday 3 September 1902, the building of the Handelsvereeniging Soerabaia opened its doors to the first of many businessmen attending an unusual plenary meeting of bankers and traders. These were members of the trading society that came to discuss the disturbing trading situation in Surabaya and in particular the Chinese boycott that was now in full swing. The assembled crowd fell silent at half past ten when H. Janssen van Raay, the NIHB agent and newly appointed president of the society, opened the meeting.

Janssen van Raay gave an elaborate speech analysing the situation. The last eighteen months had seen a reversal of fortune for all those involved in the import trade. Years of decreasing bankruptcy losses had been cancelled out in 1901 with *f* 1,144,923 of outstanding credit lost to defaulting clients. And the outcome for the current year was expected to be worse. This had nullified most of the positive results of the preceding years, including good practices of curtailing credit and discouraging unbridled competition amongst the wholesale import traders. The only way to reverse the current situation was to return to a restricted and closely watched credit policy and realize a better mutual co-operation between the European traders. It was disappointing that the Chinese traders managed collective action whereas the Europeans failed to do so.

Janssen van Raay noted that the latest proposals for a restriction of credit had been made in the first half of 1901 when the Batavian trading company Maintz & Co. pushed for a radical abolition of the prevailing credit system and argued for a system of cash payments. This plan rested on the general co-operation of traders and bankers alike, but failed to materialize due to a lack of agreement. Maintz & Co. had been forced to give up its cash on delivery policy within months. Although its prices were as good as any others, the company soon recognized that it was impossible to work this way. Trade dwindled and if it wanted to continue its business it had to go along with the old credit policy (Van den Berg 1907: 380–381).[112]

Janssen van Raay described how rumour and gossip undermined trust and had come to determine trading operations to a high degree. The slightest negative reports concerning Chinese buyers led trading companies to restrict the delivery of goods and reduce the amount of outstanding credit.

[112] The initiative of Maintz & Co. received extensive coverage in *De Indische Mercuur* on 11-03-1902; 18-03-1902; 13-05-1902 and 14-10-1902. See also *SH*, 03-09-1902 and *De Java-Bode*, 06-02-1907. A similar discussion on the introduction of cash sales in order to check the number of failures among Chinese and European firms took place in Singapore in 1864 with the same (lack of) result (Wong Lin Ken 1960: 166).

This reaction might point to healthy awareness of doing business with a dubious trader who could not be trusted too much, or it showed the impossibility of assessing the true financial strength of a trading partner. Either way, as soon as a buyer's position was considered shaky every supplier would insist on additional security in case payments stopped. After all, there was no telling what percentage of their remaining claims creditors could expect to collect in case of a settlement. To complicate matters the amounts creditors claimed were frequently doubted as well and not without reason given the unfailing regularity of *sluipaccoorden*. Besides, assessing the true financial position of a European trading company was as complicated as a Chinese. Its assets and liabilities were equally difficult to ascertain because the books were not up to date, or partially kept in Europe or could simply not be trusted.

The question was, what to do about this vicious circle of credit insecurity and distrust? Various ideas were discussed but real decisions were once again avoided. In the end Janssen van Raay's proposal to form a committee that would examine the matter was accepted. The traders Textor of Reiss & Co., Schnurrenberger of Maintz & Co. and Noothoven van Goor of Mesritz & Co. were appointed as committee members. Noothoven van Goor soon proposed a reduction of credit over 5 years instead of a immediate withdrawal which would be impossible to implement. This was essentially an adaptation of the more revolutionary plan of Maintz & Co.

Noothoven van Goor realized that the diverging interests of dozens of traders ensured fierce competition. The resulting distrust prevented a long-term compliance with any agreement regarding the abrogation of credit. He therefore turned to the banks who discounted the IOU's of the Chinese retail traders on behalf of the European wholesale importers. Since there were only six banks in Surabaya who actively facilitated trade, it would be much easier to negotiate an agreement with them. If only the banks would gradually stop discounting, a cash on delivery policy would come into existence.[113]

This plan constituted a real opportunity to break the deadlock which had for years prevented change. The committee began its work with enthusiasm, but it soon started to deviate from its task. Instead of considering a new basis for trading activities, it became preoccupied with the fight against the Chinese boycott. This fight also required co-operation amongst the traders, but focused exclusively on countermeasures to

[113] *SH*, 03-09-1902.

defeat the Chinese. The appeal for setting out a new course made by the anonymous 'Trader' and Noothoven van Goor fell on deaf ears and became yet another missed opportunity.

In the meanwhile the Chinese successfully orchestrated their boycott for which purpose a contract was drawn up by notary A.H. van der Does de Bije.[114] This stated that the boycott was exclusively aimed at the import business of the HVA. The export of agrarian products as well as the important trade in petroleum were deliberately excluded. The contract contained twelve provisions. The penalty for breaching the boycott and resuming trading with the HVA was *f* 1,000 on the first occasion, *f* 2,500 on the second, *f* 5,000 on the third and *f* 10,000 for each following violation. Anyone who wanted to be dismissed from his boycott obligation within five years after joining was obliged to pay a fine of *f* 10,000. The boycott had an indefinite running period and could only be terminated with the explicit consent of all participants. Any attempt to influence those that wanted to continue the boycott was again punishable by a penalty of *f* 10,000.

The boycotters agreed to try to prevent all trade in HVA merchandise by their commercial partners. Most European objections were raised against this article, since it attempted a complete block on the HVA's import trade. In case of success the HVA would not be helped by entering into commercial relations with other traders. The intended domino effect would most likely preclude any new business arrangements. This was a frightening prospect for every European trader and/or banker. More than any other provision this seems to have convinced all of the necessity of counteracting the Chinese measures.[115]

Adding to this conviction was the number of Chinese retail traders that joined the boycott, since 85 Chinese traders and shopkeepers signed the boycott contract. The *Soerabaiasch Handelsblad* claimed that of the entire Chinese trading community in Surabaya only four Chinese shopkeepers refused to sign. Lawyer J.B. van Houten, acting on behalf of two Chinese traders in a later stage of the boycott, contradicted this. He denied that all Chinese traders had signed the contract and cited several regular Chinese customers who refused to boycott the HVA. Only a few boycotters were large regular buyers and even they had few direct trading connections in Java's interior. If the *Soerabaiasch Handelsblad's* claim was an

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[114] See for the complete provisions of the contract *Soerabaiasch Handelsblad*, 05-09-1902.

[115] *SH*, 05-09-1902; *Weekblad voor Indië* I 5 (29-05-1904) 5.

overstatement, Van Houten's soothing words were probably intended to achieve the opposite effect. Regardless of who was right or who was wrong, the boycott was a highly organized and massive affair. It was unequalled in both scale and ramifications and consequently perceived as a danger.[116]

The European trading establishment must have viewed the boycott as the opening of Pandora's box. A glimpse of how 'dangerous' the situation was, can be seen in the pressure exerted upon Toko Oei Moo Liem. This large company in victuals and beverages was established in Surabaya in 1849 and had built a solid reputation over the years. Not once had it defaulted and this was so extraordinary that it was celebrated in 1899 during the firm's fifty-year anniversary. On that memorable occasion it was presented with a certificate of competence from the European import traders which in turn was considered so remarkable that it was mentioned in the Straits Times on 2 September 1902 in an article concerning the Surabaya trading situation.

Oei Ping Ing, the current owner of Oei Moo Liem, was one of the four Chinese who stubbornly refused to participate in the boycott and no pleading or threatening had made him change his mind. However, the ringleaders of the boycott would not take no for an answer and changed tactics. Three of them – Tan Tjoen Gwan, Tio Sik Giok and Kho Kie Siang – contacted the wholesale firm of S.L. van Nierop & Co. and gave it a choice between losing their clientele or refusing Oei Moo Liem the sale of its monopoly articles for which Van Nierop & Co. had acquired the sole right of sale in the Netherlands Indies. (For example, the products of producer Tieleman & Dros in Leiden, the Netherlands could only be bought at Van Nierop & Co.) Since the three combined bought much more than Oei Moo Liem, Van Nierop had no choice but to acquiesce. He threatened Oei Ping Ing and stated that he would not sell him any monopoly articles, unless he agreed to take part in the boycott.[117] This would undoubtedly cost Oei Moo Liem some of his customers. If they could no longer purchase these items at his store, they would have to buy them elsewhere and this could very well be from one of the boycott leaders.

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[116] *SH*, 20-08-1902; *Weekblad voor Indië* I 5 (29-05-1904) 5.

[117] Upon asked about this *perkara* (matter) Van Nierop & Co. denied it had anything to do with the boycott. At a later stage the firm became suspected of complotting against the HVA. This makes one wonder whether Van Nierop & Co. really was not in a position to oppose the Chinese triumvirate. It might have co-operated eagerly or perhaps even instigated the demands in order to see the last of a powerful competitor (BI/DJB 5143, 27-08-1902; BI/DJB 5143, 13-09-1902).

Initially, the HVA hardly reacted to all of this. It was convinced that the whole matter would peter out within weeks and assumed a haughty attitude. The Surabaya agency even failed to mention the particulars of the boycott in its correspondence to the Amsterdam head office. However, news travelled fast and manufacturers and producers did not take the matter lightly and started to inquire in Amsterdam what was going on. Without any answers head office found itself in an embarrassing situation and communication with the branches in Java was stepped up. From the end of August the situation gained momentum. The HVA began to look for help, and approached several of the financial institutions in Surabaya and Batavia.

The agent of DJB in Surabaya made himself the champion of the countermovement against the Chinese. On 25 August 1902 he sent a telegram urging the President and Directors of DJB in Batavia to take firm action against the three instigators of the Oei Moo Liem affair. A counter movement was proposed in which all [underlined in the original] banks would unite to end the boycott by no longer discounting the acceptances of the three manipulating culprits. Two days later the same agent again recommended the banks' intervention, but this time pleaded to have all [underlined in the original] signatories of the contract included. Otherwise the three main offenders would be helped by others committed to the boycott and the proposed measure would have little effect. He also suggested distributing a list of all boycotters to the banks and their agencies in Batavia and Semarang. If the decision was taken to oppose the boycotters, this would prevent other branches of the Surabaya wholesale firms from discounting acceptances of Chinese involved in the boycott.[118]

The pending boycott was discussed for the first time in a regular board meeting of DJB on 29 August 1902.[119] Prior to that President J. Reijsenbach had been in contact with Director P. Reineke of the HVA in Amsterdam. Based on the information exchanged it was decided to comply with the requests made by Reineke and the bank's agent in Surabaya. DJB would intervene with a counter boycott unless the contract was annulled. Not all banks subscribed to this. So far the NHM and the NIEM had agreed to participate, but without the NIHB the chances for success would be slim. During the meeting itself a telegram from Surabaya was received in which the agents of DJB, NHM and NIEM stated that the measure could only be successful if all banks, including the savings banks, joined in. On

[118] BI/DJB 5143, 25 and 27-08-1902; *SH*, 03-10-1902; *Weekblad voor Indië* I 5 (29-05-1904) 5.
[119] BI/DJB 78 No. 45: 185.

2 September 1902 another meeting was held at the Surabaya office of DJB.[120] This time the NIHB agent H. Janssen van Raaij – and president of the Handelsvereeniging Soerabaia – was present as well. Apparently he had received new instructions, because he declared that the NIHB had agreed after all to support the banks' initiative. But with the importers of Surabaya convening the next morning, he proposed to wait until the next afternoon before sending the first letters warning the Chinese to stop their action.

Janssen van Raaij hoped to persuade the traders to put pressure on their Chinese clients and get them to breach the contract. As seen, earlier attempts at co-ordination had met little success in the past, although the recent decision to create a committee might achieve results in the near future.[121] In the afternoon of 2 September 1902 the twenty most influential Chinese traders participating in the boycott were told that the banks were indignant upon hearing of the contract aimed at the HVA. This was strongly condemned, especially because it hindered the business dealings of people that were not involved. The banks therefore demanded that the contract be annulled within five days and that similar agreements would not be concluded in the future. If the Chinese did not comply the banks would ensure that their signature would become utterly worthless.

The Chinese did not budge, although a few conciliatory gestures were made. On 8 September the counter boycott was put into effect with the support of the four main banks as well as the Surabaya savings bank and the two English banks operating in the city. With the notification of all relevant agencies in Semarang and Batavia the counter movement was complete. Of the 85 signatories fifteen Chinese traders were selected whose acceptances would be refused from now on.[122] These names were to remain secret in order to prevent Chinese defiance as long as possible. Office personnel were also to be kept in ignorance to avoid leaks to the *Soerabaiasch Handelsblad*. The principal decision to start a counter boycott at the DJB meeting in Batavia in the early afternoon of 29 August had

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120 BI/DJB 5143, 02-09-1902.

121 In October 1902 the committee made several recommendations to improve trading conditions (see p. 208), but these proposals do not seem to have initiated any meaningful response (*De Indische Mercuur*, 14-10-1902).

122 DJB and the *Soerabaiasch Handelsblad* spoke of 85 Chinese traders participating in the boycott. The *Factorij* mentioned 79 signatories in its correspondence, whereas J.B. van Houten in an article referred to circa 80 signatories (NA/NHM 2460, 17-10-1902; *Weekblad voor Indië* I 5 (29-05-1904) 4).

been secretly telegrammed to Van Geuns, who had published it immediately in the paper's evening edition.[123]

The banks were quite confident that their effort would bring the Chinese to their knees, but the attempt was doomed to fail. The refusal to discount the acceptances of the selected Chinese traders hurt them, but it hurt the European importers even more. They had accepted the IOU's of their Chinese clients upon the delivery of goods believing that the signatures were good for the specified amount. The banks' refusal to discount these IOU's in the future rendered them worthless and consequently plunged the wholesalers into a liquidity crisis. Their response came in the form of a letter from the earlier mentioned' committee. On 9 September, the day the banks put their threat into practice, it proposed inducing the Chinese to alter their position by lifting the banks' sanctions for the time being. This placed Janssen van Raaij in an awkward position. As the agent of the NIHB he had authorized the sanction which the committee now undermined. But, as acting president of the Handelsvereeniging Soerabaia he had presided over the meeting on 8 September. Janssen van Raaij solved this conflict of interest by taking a neutral position regarding the committee's proposal and stating that he would follow the other banks. According to DJB and the other banks the importers were only stalling for time and they politely declined the committee's request.[124]

Events unfolded rapidly. The HVA asked two businessmen to contact their Chinese counterparts and see if a satisfactory solution could be found. Both gentlemen, Zilver Rupe and La Fontaine Verwey, called a combined meeting of European and Chinese merchants on 11 September, but the stipulated penalty of *f* 10,000 prevented the assembled Chinese from breaking their promise. The agent of DJB recognized that innocent European importers were mainly suffering and that the banks were losing momentum. Drastic measures were required to break the Chinese. He requested DJB head office to take the matter to the Governor-General himself, or consider refusing credit to ALL [capitalized in the original] Chinese participating in the boycott.[125]

This seemed too high-handed, so another approach was taken. In order to distinguish between those Chinese that had been pressed to sign the contract and those who supported the boycott whole-heartedly a letter of intent was drafted for the Chinese. Phrased very carefully it stated that the

123 BI/DJB 5143, 08-09-1902; NA/NHM 2460, 17-10-1902; *SH*, 29-08-1902; *SH*, 05-09-1902.
124 BI/DJB 5143, 09-90-1902; BI/DJB 78 No. 49: 201; *Weekblad voor Indië* I 5 (29-05-1904) 5.
125 BI/DJB 5143, 12-09-1902.

signatory would like to see the contract annulled eventually. This did not constitute a breach of the contract, and might break the resolve and unanimity of the Chinese. But after two weeks only 24 signatures were collected; including about ten by those Chinese traders whose acceptances were refused. With 72% of the boycotting Chinese refusing to sign a letter which merely showed an intent to resolve the matter, a voluntary termination of the boycott contract remained an illusion.[126]

In the meanwhile the importers started to object to the banks' approach. On 12 September 1902 they voiced their disapproval of the 'punishment' of a few selected Chinese and of the 'one-sided' point of view upon which the banks based their judgement. Information had been received from the HVA only and the Chinese case was totally disregarded.[127] Five days later Janssen van Raaij asked, on behalf of the importers, whether the banks might reconsider their counter boycott. The importers were however rebuffed and even their plea to limit the punitive measures to a smaller number of Chinese traders was rejected. All this bickering did not go unnoticed and merely served to strengthen the resolve of the Chinese. They were encouraged by inflammatory articles in Malay language newspapers. On 17 September 1902 the *Bintang Soerabaia* for instance, wrote of extending the boycott to Semarang and Batavia. By now, the importers' committee was wondering if the authorities should intervene. The Surabaya agent of DJB once again mentioned this in his correspondence with the head office.[128]

In Batavia this appeal was brushed aside. President Reijsenbach of DJB remarked bluntly that they could not care less.[129] The Chinese showed exactly the same attitude. They had presented the HVA with a *fait accompli* and were confident that they could continue to determine events. By word of one of their leaders, Oei Wee Kee, they suggested that the HVA buy them off for *f* 250 per person. This would have cost the HVA *f* 21,250 and was declined by Director Reineke himself.[130] The agents of the participating banks in Surabaya acknowledged defeat in a meeting on 25 September. The resolve of the Chinese could not be broken and threatening not to discount their acceptances was of little consequence for those that paid cash and did not give IOU's anyway. The problem was how the banks could retreat without losing prestige. The agents had no choice but

126 BI/DJB 5143, 13, 24 and 25-12-1902.
127 BI/DJB 5143, 13-09–1902; BI/DJB 78 No. 50: 203–204.
128 BI/DJB 5143, 18-09-1902.
129 BI/DJB 78 No. 52: 207.
130 BI/DJB 5143, 24-09-1902.

to refer the matter to their head offices in Batavia, although once more the possibility of calling in the authorities was respectfully suggested.[131]

The Batavian head offices came up with the following compromise.[132] The acceptances of the Chinese who had signed the letter of intent were allowed to be discounted from 5 October onwards, but the remaining unwilling traders – especially the ringleaders – would continue to suffer the consequences of their stubborn behaviour. These five boycott leaders were identified as Tio Sik Giok, Tio Tje An, Tan Tjoen Gwan, Oei Wee Kee and Tio Sin In.[133] The intention was to keep this embarrassing defeat secret for a long as possible, but on 16 October 1902 the *Soerabaiasch Handelsblad* got wind of it and concluded that the banks had taken half-hearted measures. A published letter to the editor spoke of weakness and lack of principle. "Would it not have been more commendable [...] to completely cancel the ban instead of adopting spurious measures which do not prevent them from looking foolish?"[134]

There were others who also used the word foolish. The NHM in Amsterdam wrote to the *Factorij* on 17 October 1902 that several firms it conducted business with had Chinese clients implicated in the boycott. The trading company Schitzler & Co. had even decided to suspend its customary credit facilities at the NHM by stating that acceptances could only be refused if the creditworthiness of those involved was doubted. The current restrictions certainly did not meet these conditions. The possibility of losing customers was inacceptable to the Amsterdam office of the NHM. The *Factorij* was told that no reliable information had been received so far and that any news had to be learned from the newspapers. What could have moved the agent in Surabaya to take the side of the HVA to the detriment of highly valued business relations?[135]

Schnitzler & Co. however appears to have been among the European trading enterprises who actively supported the Chinese boycott in the hope of eliminating a competitor. The NHM agent in Surabaya wrote that he was not at all surprised to find that the alarming messages from the Netherlands originated from Schitzler & Co. The firm was even accused of having printed a Malay translation of the boycott contract with the purpose of distributing it in the interior. Although the NHM managed to

131 BI/DJB 5143, 25-09-1902.
132 BI/DJB 78 No. 53: 209; BI/DJB 77 No. 55: 1; BI/DJB 77 No. 56: 8.
133 NA/NHM 7984/306, 17-10-1902; *Weekblad voor Indië* I 5 (29-05-1904) 6.
134 *SH*, 16-10-1902.
135 NA/NHM 7984/306, 17-10-1902.

intercept the document, the scheme was not entirely unsuccessful since a limited number of copies still found their way to Chinese traders.[136]

The counter boycott had failed hopelessly within weeks after its inception and this defeat was completed several weeks later when the five boycott leaders were no longer held accountable. From the second week of November 1902 their acceptances were as good as any others.[137] The HVA had to follow a new course. Initially it had focused on the possibilities of a judicial proceeding. If the contract was breached and the court ruled that the stipulated fine of *f* 10,000 did not have to be paid, traders might be persuaded to give up the boycott. The HVA tried to find at least one trader willing to risk this procedure by guaranteeing to pay all possible damages. But not a single boycotter agreed. The HVA then came up with something only a large and powerful enterprise could pull off. In January 1903 it called in the authorities and with the mediation of Janssen van Raaij the Assistant-Resident Arends was prepared to mediate.

Although the authorities in Surabaya had followed the boycott closely they had not intervened so far, considering it an economic dispute with no harmful political implications. But with the dispute dragging on for almost half a year and with no solution in sight it seemed prudent to respond positively to the HVA's request. The Assistant-Resident's intervention might have worked, were it not for the fact that he was also the acting chief of police and so presided over the indigenous court of justice. As the Chinese were well aware of how much depended on his benevolent attitude in legal cases, they did not see him as an impartial negotiator.[138] The importers were of the same opinion and objected to his involvement by preparing a complaint to be sent to the Governor-General, stating that the Surabaya authorities had no right to interfere. This proved not to be necessary, because in February 1903 Arends gave up his attempt to negotiate without having achieved a breakthrough.[139]

Confronted with yet another failure the HVA changed tactics and decided to address the Governor-General and the Minister of Colonies personally with a request for help.[140] The Handelsvereeniging Soerabaia urged the Governor-General not to decide in favour of the HVA without hearing their arguments as well. The answer to the Handelsvereeniging

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136 BI/DJB 77 No. 63: 24; BI/DJB 77 No. 64: 27; NA/NHM 2460, 19-11-1902; *Weekblad voor Indië* I 5 (29-05-1904) 5.

137 NA/NHM 2460, 11-11-1902.

138 Officially, commercial disputes involving Chinese were not handled by him, but still.

139 BI/DJB 78 No. 52: 207; BI/DJB 77 No. 87: 119; *Weekblad voor Indië* I 5 (29-05-1904) 6.

140 *De Locomotief*, 19 and 21-12-1908; *Weekblad voor Indië* I 5 (29-05-1904) 6.

was short; a single line stating that consultation was unnecessary (*Jaarverslag Handelsvereeniging Soerabaja 1903* 1904: 39–42). The HVA did not expect quick results and continued to work on new initiatives. On 30 April 1903 the unpleasant business was assessed at the Amsterdam head office. Directors and Commissioners concluded that no one could accuse the HVA of unfair behaviour. The boycott had been initiated by two Chinese traders – Tjo Sik Giok and Tjo Tje An – aided and abetted by European competitors such as Schnitzler & Co. The immediate reason for the boycott had been the refusal of credit facilities to the aforementioned Chinese on account of the new restrictive credit policy of the HVA. Convinced of the soundness of the new credit policy Directors and Commissioners decided not to deviate from the set course.[141]

The HVA could show this kind of determination, because the boycott did not harm its profitability. The Surabaya agency had maintained its volume of trade for most products. Sales figures of a few items had suffered slightly, but through much effort sufficient turnover was accomplished. Nevertheless, the boycott needed to be neutralized. On 16 June 1903 the HVA sued Tjo Sik Giok and Tjo Tje An, demanding to be compensated for sustained damages.[142] At the same time 22 boycotters were summoned to give a statement to Assistant-Resident Arends.[143] The Dutch lawyer of the two Chinese asserted that the whole situation was extremely nerve-wrecking, as the two were made to wait endlessly, and were living in constant fear of being interned or expelled from the Netherlands Indies.

This investigation was followed by a second one conducted by the public prosecutor who also heard the Surabaya traders concerning the conditions under which business was conducted in general and in particular by the HVA. Their statements did not help the HVA as they appear to have made the boycott more understandable if not justifiable. No charges were ever pressed against the boycotters. In the end, the Chinese scored an outright victory as the law suit against Tjo Sik Giok and Tjo Tje An was thrown out of court on 20 May 1904.[144] The HVA did appeal the court's decision but had essentially run out of options. From now on, the company could only try to resist the boycott. The adversaries tested each other's resolve another year. In May 1905 the Chinese renewed their proposal to end the boycott by buying them off. This time they offered to settle the matter

141 NA/HVA 1 Minute Book 3: 87–88.
142 BI/DJB 79 No. 23: 83.
143 *De Locomotief*, 21 and 22-12-1908.
144 BI/DJB 81 No. 14: 51; *SH*, 21-05-1904; *Weekblad voor Indië* I 5 (29-05-1904) 6–7.

provided that the HVA contributed *f* 25,000 for the building of a Chinese school and another *f* 5,000 to cover legal expenses. Battle-weary the Amsterdam office agreed to pay against the advice of the Java branch offices.[145] After nearly three years the Chinese had won the battle. The economic balance of power had shifted, as shown by reactions to a renewed Chinese boycott of the HVA in Semarang three years later.

### *"Obat Gandroong Tiong Kok"*

It stands to reason that the Dutch were not at all pleased with the effectiveness of the boycott, which received immediate and widespread recognition. The celebrated results obtained by boycotts or the mere threat of them found fertile ground in the imagination of the indigenous population. In popular speech the boycott instrument soon came to be called the *obat gandroong Tiong Kok*, or the "medicine of which the Chinese are extremely fond".[146] The Chinese prided themselves upon their newly found power which boosted their self-esteem. *Peranakan* newspapers crowed about the Chinese achievements. Even the *Kabar Perniagaan* in Batavia – supportive of the old Chinese officer institution and usually more soft-spoken and reticent – was quite categorical when discussing the benefits of the boycott in general.

In 1908 it published an extensive article under the heading *Hal Boycot* (Boycott Matter) in which it demonstrated the blessing of the boycott instrument for all Chinese.[147] This article – signed by H. – sheds light on some of the motives underlying the behaviour of the Chinese traders and their inclination to resort to boycotts. In the first sentence of the article the following revealing statement is made:

> Boycot, oleh bangsa Tionghoa di oepamaken sebagi sendjata jang paling teroetama, boewat bangsa bangsa laen, ini sendjata belon taoe di goenaken.
>
> The boycott is considered the most important weapon of the Chinese, whereas other nations still do not know how to use this weapon.

The author proceeded to trace the origins of this movement back to the Chinese-Japanese war of 1894/95. According to him, the defeat of the Chinese provided the final impetus to awaken China from its sleep, shake the country out of its lethargy, although it remained difficult to mobilize

145 NA/HVA 1 Minute Book 3: 139; *NRC*, 28-06-1905.
146 *SH*, 30-12-1908.
147 *Kabar Perniagaan*, 01-08-1908.

its large populace. Consequently, China and the Chinese suffered humiliation at the hands of more powerful foreign nations.

> [...] ini waktoe, Radja radja besar di Europa dan Azia soeka sekali kasi lihat kasombongannja pada Tiongkok, jang iaorang pandang sabagi satoe barang permaenan, jang tida soesa di poeter kakanan dan kiri.
>
> [...] the powerful kings of Europe and Asia at the time very much liked to demonstrate their arrogance towards China, considering its people a toy, to be turned without much difficulty to the left and to the right.

In other words, Chinese were clearly aware of this manipulation, but recognized that very little could be done about it for the time being. The resulting growing sense of frustration is well captured by the writer:

> Kaloe bole Tiongkok dan anak rahaijatnja hendak lantas kasi lihat giginja, tetapi ija orang taoe jang masa ini ija belon boleh bikin begitoe oleh kerna kakoewatan marika itoe belon sampe tegoeh aken bertanding pada Radja radja besar jang tjoekoep alat sendjata dan bala tentaranja.
>
> If it had been possible, China and its people would have shown their teeth immediately, but the people realized that they had to restrain themselves at this point in time, because their strength was not sufficient to stand up against the powerful kings who had more than enough weaponry and troops at their disposal.

Thus, the Chinese had to bide their time for the moment, but soon managed to come up with another strategy:

> [...] beroentoeng anak rahaja Tiongkok bisa dapet pikiran aken tolak hina'annja laen bangsa dengen saroepa sendjata jang tida membahajaken djiwanja manoesia. Ini sendjata, soeda bisa begitoe berpengaroeh, hingga djoega ini sendjata terkenal oleh orang orang semoewa [...]
>
> [...] fortunately the Chinese could think of a way to start resisting the contempt of other nations with a kind of weapon that will not endanger people's lives. This weapon has already become very influential, so that it is well-known to all [...]

At this point the author had carefully prepared the reader for the final argument:

> Ini sendjata jang terpake oleh bangsa Tionghoa, brangkali pembatja pembatja djoega kenal, jaitoelah, orang Europa dan orang orang di ini Hindia kasi nama 'Boycot'. Ini sendjata, djadi satoe penoeloeng besar pada satoe negri jang masi lemah.
>
> Used by the Chinese, this weapon – maybe the readers know it as well – is called 'Boycott' by the Europeans and the people in the Indies. This weapon is a great support for a country still weak.

This conclusion is supported by referring to a number of successful boycotts. The boycott of the HVA in 1902–1905 figures prominently. The excerpt in Box 4.2 refers to the exciting fact that the Chinese successfully wrested *f* 25,000 from the HVA, but also provides a glimpse of the psychological effects. In the eyes of the Chinese the wholesale import traders had been taught an expensive lesson, so that a distinct change in European attitudes had become noticeable. This was the perception of the Chinese, who talked about being treated far less haughtily in matters of business.

Greater leniency was also experienced in debt payments, although the Chinese realized that the prevailing trading conditions in Surabaya partly explained this fortunate circumstance. European importers in Batavia could seemingly count on a higher rate of turnover due to a more solid customer base. Therefore, H. comprehended the European firms' sense of urgency in Surabaya concerning the repayment of outstanding credit. With a limited clientele they could not afford too wait too long and needed to be paid promptly. But, H. also asserted that the Europeans themselves were to blame for this situation. After all, Chinese traders were initially offered merchandise on very generous conditions including extremely lenient payment schedules, while in case of arrears penalties were customarily avoided by offering a more amicable solution. However, as the European wholesalers grew confident about their business prospects, they sooner or later demanded strict adherence to a signed contract. The Chinese – who had become accustomed to a certain degree of flexibility – were suddenly denied their leeway.

The fact that the only alternative to non-compliance was the *boei* or *beslag* (i.e. the prison or the loss of one's shop) deeply offended the Chinese. The article shows that this was considered disrespectful and dishonest. It seemed just that the Chinese could now dispose of a means to protect their interests successfully which deserved wider recognition. In the last sentences of his article H. therefore tried to evoke a general spirit of assertiveness by confronting his readers with the following provocative words:

> Tetapi bagimanatah dengan orang orang disini, apakah ia bisa djoega kasi liat giginja pada toko toko Europa jang berlakoe tjoerang? Itoelah saja tida bisa djawab, hanja tjobalah nanti kita liat pada hari kamoedian!
>
> But what about the people here? Can they also show their teeth to the European firms that behave dishonestly? That I cannot answer, just let us see what the future brings!

Box 4.2. Excerpt from "*Hal Boycot*" in *Kabar Perniagaan*, 1 August 1908.

Nah! Inilah ada swatoe tjonto pada laen-laen bangsa, jang soeka hinaken bangsa Tiong Hoa zonder alesan jang tjoekoep, dimana pada kamoedian hari toch ia moesti menjesel di atas perboewatannja sendiri.

Begitoepoen pada orang-orang Europa disini, sedjak sala satoe handelsvereeniging di Soerabaja telah di boycot, jang kamoedian soeka damiken ini perkara dengen menanggoeng karoegian besarnja *f* 25.000, roepa roepanja toewan toewan toko di Soerabaja tida begitoe brani berboewat kesombongan pada orang orang Tiong Hoa lagi, hingga ini waktoe djarang sekali jang orang orang Tiong Hoa dapet maloe lantaran acept jang terbikin di doewa fihak. Sringkali djoega djika orang Tiong Hoa melanggar djandjinja boewat sapoeloeh hari atau lebi sedikit, toko toko Europa soeka menoenggoe hingga terbajar, jang mana ada djadi njata pada kita, bahoewa toko-toko Europa di Soerabaja tida berlakoe begitoe keras seperti toean toko di Batawi dengan langganannja. Dimana sebenarnja kaloe tida langganannja jang bantoe djoeal, soeda tentoe itoe toko toko Europa tida bisa tinggal lama, dan terpaksa tida bisa berniaga disini.

Poen pada toean toean toko, banjak sekali jang tida maoe orang melanggar djandjinja. Sedangan bermoela ia berniaga; kaloe bole ia brani bajar boeat orang jang kasi ia langganan, tetapi, kaloe sadja perniaga'annja soeda madjoe, ia pandang hina sekali pada langganannja, dan sa'andenja langganannja brani liwat dari pada djandjinja, soeda tentoe lantas ia berboeat sabagimana moestinja, ia itoe boei pada pioetangnja atau beslag pada tokonja.

Well, here is one example of another nation that likes to humiliate the Chinese without sufficient reason, where afterwards it nonetheless has to regret its own actions.

In the case of the Europeans here, ever since a trading firm in Surabaya was boycotted and had to accept its settlement with a big financial loss of *f* 25.000, the owners of the firms in Surabaya do not seem to be as arrogant towards the Chinese any more, with the result that nowadays the Chinese are very seldom embarrassed as an acceptance involves two sides. Often, even if the Chinese break their promise to make good in ten days or a little bit longer, the European firms do not mind to wait to be paid, which has made it evident to us, that the European firms in Surabaya are not selling as well as the owners of the Batavian firms with their regular clients. On the other hand, if retailers are not helpful in selling, it is natural that these European firms cannot wait for a long time, and are forced not to trade here.

Subsequently, most owners of trading firms do not want a person to break his promise. However, when he [i.e. the European trader] starts to trade he is eager to pay[1] a person so that he will receive regular clientele, but, as soon as the trader has set up a thriving business, he considers his retailers with contempt, and in case the client has the nerve to disregard his commitments he [i.e. the European trader] is certain to act readily in the prescribed manner, i.e. debt imprisonment or seizure of his shop."

[1] To accomodate a client by supplying merchandise on very advantageous conditions.

H. did not have to wait long for an answer to his rhetorical question. On Friday 2 October 1908 the auctioneering firm Soesman & Co. in Semarang held its customary *tokovendutie* or shop-keeper sale. As always, it drew a large crowd of potential (Chinese) buyers.[148] Amongst the victuals and beverages for sale were sixty hams, three hundred cans of milk and a shipment of *beschuit* (Dutch rusk). Initially the auction proceeded well. Business was bustling and the merchandise on display changed hands rapidly. However, something peculiar happened when the hams came up for sale. Suddenly the room fell silent as the auctioneer opened the bidding by calling: *Djoewal ham! siapa beli satoe, boleh beli doewa, tiga, ampat, pendek boleh beli antero partij!* ("The sale of hams! Who buys one? You may buy two, three, or four. In short, you may buy the whole lot!")

Strangely, nothing happened. No matter how hard the auctioneer tried, there was no response whatsoever. No one was willing to place an order. After several fruitless attempts the item was withdrawn from sale. The same situation occurred with the hundreds of cans of milk. Again, the auctioneer was confronted with a silent and passive audience that showed no sign of willingness to buy. Therefore, there was no other option but to return that product to the godown as well. This unreal scene repeated itself with the consignment of Dutch rusk. Not a single biscuit was sold and finally the auctioneer had to concede defeat. After all this, business resumed as if nothing had happened.

Why had trade stopped without a warning? According to the *peranakan* newspaper *Warna Warta* the answer lay in the fact that all rejected items had been consignments of the HVA and had been visibly branded as such. This elicited the hostile reaction from the Chinese. *De Locomotief* confirmed this assertion. Another boycott had broken out and the HVA was once again in for a bitter fight with the Chinese traders.

The prevailing trading conditions in Semarang had not been very sound prior to 1908. The first complaints of European importers regarding sluggish trade and falling turnover dated from the beginning of 1905. The Chinese 'second hand' was considered to be in 'poor shape' financially which adversely affected the wholesalers. These deteriorating circumstances expressed themselves in a sharp rise of defaulting retail traders in 1905/06 (see Table 4.2). Thirteen retail traders (eleven Chinese and two Arabs) collapsed with a combined debt of close to *f* 800,000. Over three quarters of this large amount of credit had been extended by 36 European

[148] *SH*, 07-10-1908.

import firms. Their involvement turned out to be very expensive since only 34% of the combined claim could be recovered. Total sustained loss thus reached well over half a million guilders, more than a fourfold increase compared with the preceding period.

These statistics were worrying and W.F.J. Keuchenius – the Semarang agent of DJB – inquired into the sources of the economic decline.[149] Keuchenius reported his findings in a letter to Batavia on 14 September 1906. He distinguished four possible causes for the problems. First of all, the recently established *dessa-loemboeng* (village rice barn) system obliged the peasants to store their harvested paddy under the supervision of the colonial civil service (Van Deventer 1904: 238–243).[150] This ethically inspired institution was to prevent famine in case of a bad harvest and to protect the farmer from being indebted to Chinese buyers. However, the government refused to advance money to the farmers before the whole harvest had been brought in, whereas the Chinese would readily advance cash even when the paddy was still in the fields. With little cash circulation, Chinese traders sold less merchandise in the villages and therefore failed to remit the usual amounts to their Chinese business partners in the city. In turn, the latter found it increasingly hard to pay their European importers.

Second, it had come to Keuchenius' attention that most import firms had too much merchandise in stock which they tried to market by dealing directly with Chinese petty traders in the villages. This has a familiar ring, as it was one of the grievances of the Surabaya Chinese during the boycott of 1902–1905. Initially the new strategy paid off, but it had an overlooked negative side effect. Able to obtain merchandise directly from the source, the so-called 'third hand' had less need for retail traders in the city whose turnover started to decline. Consequently, the retailers reduced their orders and therefore the wholesale suppliers soon regretted upsetting the traditional distribution network.

The third cause Keuchenius distinguished involved the earlier mentioned Surabaya based firm Schnitzler & Co which had played such a dubious role in the first boycott of the HVA. Much to the regret of the Semarang trading firms this company also operated in Central Java. Here it displayed the same objectionable business methods which was a source of continued aggravation. Schnitzler & Co. apparently chose to weaken its European competitors by pressuring sound Chinese clients into defaulting.

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149 BI/DJB 1345, 14-09-1906.
150 BI/DJB 5183, 26-05-1905.

They declared themselves unable to fulfil their commitments, after concluding a secret arrangement which would prevent Schnitzler & Co. from sustaining any real loss. An example of this occurred on 5 September 1906 when the Gie Boh *kongsi* was said to have collapsed on the instigation of Schitzler & Co. A settlement of 65% was agreed upon leaving creditors with a combined loss of nearly *f* 40,000.[151] A.L. Tupker of the trading firm Tupker & Co. informed Keuchenius of his suspicion that this default was fabricated. Tupker claimed that Tjoa Kang Liong and Sie Yan Hay – the two partners in the Gie Boh *kongsi* – had not shown any intention of closing their business. This impression was fully endorsed by other importers, who all had to write off substantial amounts of money. Schnitzler & Co. seemed to be worst off with a loss of almost *f* 9,000, but according to A.L. Tupker – whose firm lost about *f* 8,000 – this existed on paper only.

The suspicions raised against Schnitzler & Co. led to a secret meeting of import traders in the second week of September 1906, where discussion focused on how to put an end to these kind of tricks. Due to differences of opinion and the commercial interests at stake, the participants did not manage to agree. As had been the case in Surabaya, a lack of trust continued to abort any attempt at co-operation between the wholesale traders. One of the participants thereupon declared it would no longer accept any settlement if Schnitzler & Co. were on the list of creditors in which case it would file for bankruptcy and bring the matter to court.

The fourth and last explanation Keuchenius had to offer seems somewhat trivial. It concerned the continued presence of a public fair on the *alun-alun* (town square) of Semarang. In his opinion such frivolous activities were demoralizing and only served to impoverish the population which should spend its money on more useful things. He therefore recommended a check on amusements by restricting permits. Although Keuchenius seems to be acting here like a moral crusader, his comment was right on the mark in one respect. It makes clear how much the trading world depended on the limited purchasing power of the indigenous population and so rightfully draws attention to a factor capable of influencing it negatively.

Keuchenius' analysis was taken note of, but not acted upon. The European traders' agitation subsided and everyone became preoccupied with their own affairs. In 1906/07 the number of defaulting Chinese traders

[151] BI/DJB 4847.

in Semarang decreased substantially from thirteen to six and total sustained loss of a little under *f* 250,000 was indeed an improvement (see Table 4.2). The biggest gain compared to the preceding period was the percentage of outstanding debt that had been recovered. In 1905/06 only about one third of extended credit had been returned, whereas in 1906/07 the amount was more than half of the loans (54%). One year later the results were even better. Over the period 1908/09 three Chinese retailers had to close their business and although debt repayment amounted to no more than thirteen percent, total sustained loss was only slightly above *f* 100,000. This seemed reassuring and most traders' must have looked to the future with confidence.

Keuchenius on the other hand was less sure about what might be in store for the Semarang import business. In a confidential letter dated 16 May 1908 he expressed his concern about the "extremely abnormal situation of the import trade".[152] He conceded that improvements had been attempted, but "the desired co-operation amongst the importers had never been obtained" and the situation resembled a vicious circle. His pessimistic outlook turned out to be justified. Within two weeks the Generale Maatschappij voor den Handel met Nederlandsch-Indië was declared bankrupt; Keuchenius must have known about the pending insolvency of the 'Generale' or must have suspected it. On 31 March 1908 he himself had signed the annual DJB survey of defaulted retail traders which showed the deep involvement of the 'Generale' for the fifth consecutive time. The company had lost *f* 126,753.80 of its money to sixteen former clients (fourteen Chinese and two Arabs) between 1903/04 and 1907/08 (see Table 4.3).

The 'Generale' was a wholesale import trader. They seldom collapsed and therefore the company's demise caused quite a shock. People were accustomed to changes as companies were founded, discontinued or carried on under a new name. Financial difficulties, however, were preferably resolved amicably after conferring with the creditors. If this was not possible, people usually opted for slow liquidation to fulfil all obligations. Bankruptcies were deemed dangerous and avoided for fear of repercussions.[153] The forced and speedy termination of the 'Generale' was no

[152] BI/DJB 5183, 16-05-1908.

[153] DJB strongly disapproved of the bankruptcy of the 'Generale' which it considered provoked by its two main creditors – the NIEM and the Chartered Bank of India, Australia & China. These two banks should have taken their responsibility by allowing a more gradual dissolution of the 'Generale' instead of letting a dispute prevent them from reaching an agreement (BI/DJB 1505, 14 and 27-05-1908; 04-06-1908).

Table 4.2. Survey of defaulted retail traders in Semarang, 1898/99–1908/09.

| | defaulted retail traders | | European creditors involved | | total outstanding debt | total sustained loss | recovered debt ratio |
|---|---|---|---|---|---|---|---|
| | total | Chinese[1] | | total[2] | *f* | *f* | % |
| 1898/99 | 4 | 4 (100%) | 12 | (100%) | 258,358 | 125,449 | 51 |
| 1899/00 | 2 | 1 (94%) | 24 | (99%) | 206,765 | 206,765 | 0 |
| 1900/01 | 5 | 5 (100%) | 13 | (98%) | 141,069 | 84,165 | 40 |
| 1901/02 | 6 | 4 (78%) | 13 | (66%) | 159,045 | 92,787 | 42 |
| 1902/03 | 4 | 4 (100%) | 15 | (99%) | 288,776 | 52,336 | 47 |
| 1903/04 | 4 | 3 (64%) | 15 | (97%) | 187,613 | 106,916 | 43 |
| 1904/05 | 7 | 7 (100%) | 18 | (91%) | 242,343 | 115,526 | 52 |
| 1905/06 | 13 | 11 (86%) | 36 | (77%) | 793,902 | 523,259 | 34 |
| 1906/07 | 6 | 6 (100%) | 24 | (93%) | 527,275 | 243,325 | 54 |
| 1907/08 | 3 | 3 (100%) | 8 | (98%) | 116,697 | 102,067 | 13 |
| 1908/09 | 24 | 22 (91%) | 36 | (98%) | 1,454,880 | 850,625 | 42 |
| | 78 | 70 | | | 4,376,727.57 | 2,603,218.18 | 41 |

Source: BI/DJB 4839–4845, 4847–4849, 4853.

[1] In the decade under consideration the overwhelming majority of retail traders that defaulted originated from China. Of the 78 traders in question no less than seventy (i.e. 90%) were of Chinese descent. The remaining eight consisted of four Arabs, three Europeans and one Javanese. The percentages between brackets indicate to what extent total sustained loss was attributable to Chinese defaulters. This has been calculated for each consecutive year by adding up their unsalvaged debts and dividing the outcome by the total calculated loss. Notwithstanding the relatively low percentage of 1903/04, the results clearly show that the Chinese retail traders were the prime recipients of trade credit in Semarang during this period.

[2] Besides providing an overview of outstanding credit for each defaulting trader, the names of the European creditors involved in these cases were also given. Next to the degree of indebtedness, the actual composition of debt can thus be ascertained. It is unfortunate that Chinese creditors have not been listed individually as they were all grouped under the heading 'various Chinese creditors'. Only in one instance was a Chinese creditor identified by his name; most likely because of his high outstanding credit which resulted in a loss of *f* 20,400. Arab creditors on the other hand were treated like the Europeans, but have been found on two occasions only with very insignificant amounts to their name (*f* 165 and *f* 490 respectively). The only Javanese wholesale trader Semarang knew in the period under consideration was not referred to (*Rapport inlandsche nijverheid* 1904 II: 164). Despite the fact that the collected data prevent a complete breakdown of indebtedness, it is clear that trade credit was supplied primarily by the European wholesale import traders. The percentages between brackets, which have been calculated by dividing the loss suffered by European creditors through the total sustained loss, testify to this assertion.

Table 4.3. Sustained loss (*f*) of selected European wholesale import traders, 1898/99–1908/09.

| | Generale Maatschappij | Import Mij. Semawis | HVA | Firma G. Hoppenstedt | Import Mij Soenda |
|---|---|---|---|---|---|
| 1898/99 | | 12,180.32 | 5,178.63 | | |
| 1899/00 | | 9,835.16 | 1,939.56 | | 5,466.18 |
| 1900/01 | | 7,636.57 | 1,034.41 | 986.58 | 13,244.48 |
| 1901/02 | | 5,833.77 | 2,919.46 | | 8,805.07 |
| 1902/03 | | 15,432.94 | 2,781.01 | 24,819.67 | 13,425.03 |
| 1903/04 | 9,131.59 | 3,961.01 | | 6,174.23 | |
| 1904/05 | 7,775.73 | 5,745.38 | 7,322 | 18,144.33 | 5,107.20 |
| 1905/06 | 38,085.85 | 40,480.42 | 10,183.28 | 27,608.90 | 12,261.99 |
| 1906/07 | 35,994.27 | 13,044.15 | 605.82 | 19,524.63 | 3,184.04 |
| 1907/08 | 35,766.36 | 4,334.85 | | 19,333.84 | |
| 1908/09 | 96,283.98 | 160,008.37 | 12,877.54 | 75,782.01 | 29,596.62 |
| | 223,037.78 | 278,492.94 | 44,841.71 | 192,374.19 | 91,090.61 |

Source: BI/DJB 4839–4845, 4847–4849, 4853.

The statistics above were compiled annually by the agent of DJB in Semarang. Registration did not correspond with a full calendar year as each period ran from 1 April till 31 March. It should also be kept in mind that in some instances settlement negotiations were still pending on 31 March and the given figures could therefore be subject to slight alterations. However, the agent made sure to carefully indicate whenever an amount was an approximation. Given the detailed and careful collection of data it is safe to conclude that these statistics come close to a factual account of bankruptcy cases in any of the given years.

exception. Even before its bankruptcy was officially announced, DJB warned that some of the firm's Chinese clientele might take this opportunity to wipe the slate clean by defaulting and offering a low percentage of debt restitution. The question was whether European importers in business with these same Chinese would be able to withstand such a blow.[154]

The 'Generale' closed its operations on 14 May 1908 and within two weeks seven of its former clients – all Chinese – had shut down their business as well. DJB was convinced that at least some of these traders had

[154] With all assets of the 'Generale' immediately frozen, Chinese customers might point to a drop in turnover since they could no longer dispose of merchandise placed in the godowns of the 'Generale'. More in general, a faltering business could be 'sold out' easier if public attention was already diverted. People would be too preoccupied to question insolvency claims and chances of a thorough examination of the books would be slim. If successful, (part of) the retained credit could then be used for starting a new business. For many, making a clean sweep turned out to be simply irresistible (BI/DJB 1505, 14-05-1908).

deliberately chosen this moment to claim their insolvency. This feeling was shared by the import traders who immediately started to suspect all Chinese who had conducted business with the 'Generale'. The 'Generale' was pressed to settle its debts forthwith which in the eyes of DJB had plunged several Chinese traders into a liquidity crisis and had unnecessarily forced their collapse. This made it impossible to determine who had benefited from the situation and who had actually been victimized. The consequences were less difficult to ascertain. On 1 June 1908 total combined loss for the import sector had already climbed to *f* 432,390.75. Of the European import firms involved, the Import Maatschapij Semawis was particularly hard hit as almost *f* 48,000 of its extended credit vanished into thin air. With more retail traders collapsing 'Semawis' lost an additional *f* 98,000 in the following month and this marked the company's end. At the beginning of August, nineteen Chinese retail traders, one European retail trader and one European wholesale importer had been toppled as a direct result of the downfall of the 'Generale'.[155] The bad results of 1908/1909 (Table 4.3) show an end score of 24 defaulting retail traders of which 22 (91%) were of Chinese descent. These cases involved 36 wholesale traders incurring a combined loss of more than *f* 850,000.

In the first week of August 1908 the Semarang trading sector was in utter turmoil. For the past six weeks the European import companies had been on the receiving end and the very existence of some was threatened. So far they had barely survived. The question was whether the companies would get time to recover. The answer turned out to be negative as the HVA expected to benefit from fanning the flames. The Malay language newspaper *Pembrita Betawi* gave a dramatic account of unfolding events in August 1908.

In the early afternoon of Thursday 6 August 1908 H.O.Th. Kilsdonk arrived at the *toko* of a wealthy Chinese retail trader located in the small and crowded streets of *Pecinan Lor*, the northern part of Semarang's Chinatown, close to the western bank of the *Kali* Semarang. It was the second time that day that Kilsdonk headed in this direction on a matter of business. He had already spoken to the Chinese owner of the shop earlier, but had been asked for a few hours' grace to consider his proposal. This time, however, Kilsdonk was determined no to let him off the hook so easily. As a HVA salesman he had to follow directives from his superiors and he intended to make sure that these were carried out satisfactorily. Besides, he had his own career and reputation to think off.

[155] BI/DJB 89 No. 9: 60; BI/DJB 1505, 27-05-1908; 04-06-1908; BI/DJB 4807, 15-07-1908.

Eager to escape the hot and sultry weather conditions on the street, Kilsdonk entered the *toko* at exactly two o'clock and was immediately shown to the inner courtyard by one of the servants. The owner, So Kim Seng, is notified about his arrival, but does not appear immediately. Being left alone for the moment Kilsdonk is seated on a bench waiting for So Kim Seng, and carefully studies the bowl of goldfish placed in front of him. Just as he starts to grow impatient So Kim Seng enters the room. After having exchanged the obligatory courtesies both men settle on the bench and the following conversation in Malay – the *lingua franca* of trade in those days – unfolds:[156]

K.: Apakah sobat soedah berfikir hal perkara itoe?
S.K.S.: Soedah, tetapi bagaimana saja moesti kata? Telah tiga poeloeh taoen lamanja saja mendjalankan perniaga'an dan sentiasa saja berlakoe dengan patoet. Saja takoet akan toeroet toean poenja perminta'an.

K.: Have you considered the matter already?
S.K.S.: Yes, but how shall I put this? For the past thirty years I have been in the trading business and I have always behaved properly. I am hesitant to meet your request.

K. : Kalau sobat maoe toeroet, saja bisa memoedahkan hal itoe. Asal sadja sobat sia siakan saja poenja sommatie dari itoe oetang jang f 500, tentoelah ini perkara soedah djadi beres.

K.: If you want to go along with it, I can make the matter easier for you. If you had disregarded my summons regarding that f 500 debt, the matter would already have been taken care off.

So Kim Seng reiterates that he is still wary of accepting Kilsdonk's proposal and asks for a list of his debts at the HVA which are due for payment. Having anticipated such a request Kilsdonk hands over a list he has compiled deliberately for this occasion with the following words:

K.: Kalau sobat soeka, masihlah sobat bisa menoeroet perminta'an saja itoe. Pada tanggal 12 Augustus habislah temponja sobat poenja oetang jang f 270. Pada hari itoe saja kirim sommatie poela. Tetapi sobat djangan bajar dan saja lantas soeroeh djalankan beslag. Maka

[156] *Pembrita Betawi*, 12-08-1908. See Cribb (2000: 32–33, 36); Rafferty (1984: 250–254) and Groeneboer (1998: 23–25, 72–77) for the use of Malay (in trade).

malamnja sobat misti memberi taoe pada firma firma jang lain pada siapa sobat ada poenja oetang, bahoea saja soedah toetoep pada sobat, sehingga sobat terpaksa akan berminta accoord pada marika itoe. Dalam pada itoe sobat moesti beroepaja sehingga sobat poenja fabriek seroetoe soedah djadi kepoenjaan sobat poenja anak atau isteri.

K.: If you would like to, you can still accept my proposal. On 12 August a debt of ƒ 270 will expire. On that day I will serve you a summons as well. But you should not pay it upon which I will order seizure [of So Kim Seng's goods] at once. On that same evening you must let the other firms to whom you are indebted know, that I have already closed your business down with the result that you are forced to ask them for a settlement. That is why you have to make sure that your cigar factory becomes the property of your children or wife.

So Kim Seng objects strongly to this suggestion, pointing out that the factory is registered in his name and free of debt. It has not been encumbered with a mortgage and none of his outstanding debts have been secured with it. He is therefore extremely reluctant to cede this property even for the sake of appearances. Leaving the subject for the moment, Kilsdonk decides to try another approach. He grabs a pencil and paper and carefully notes down So Kim Seng's answer to his following question:

K.: Tjoba saja maoe taoe: pada siapa siapa dan berapa sobat poenja oetang?

S.K.S.: Pada toko Hoppenstedt 27 riboe, Semawis 25 riboe, Generale 10 riboe, Soenda 17 riboe, …

K.: Listen, just tell me to whom you are indebted and for how much?

S.K.S.: To Hoppenstedt 27 thousand, Semawis 25 thousand, Generale 10 thousand, Soenda 17 thousand …

K.: Medjadi pada bank bank (Semawis dan Generale) djoemlah sobat poenja oetang kira kira 35 riboe. Itoelah ada satoe lantaran akan djangan berlakoe ajal. Pada bank bank itoe sobat misti bajar oewang jang sebanjak itoe, dan sobat tida mendapat oenteong satoe cent dari marika itoe.

K.: So, with the banks [because of the downfall of] ('Semawis' and 'Generale') you have a total debt of approximately 35 thousand. That is one reason not to let it end this way. You have to pay the banks as much money as that, and you will not see a cent of profit from them.

Kilsdonk's argument essentially comes down to the reassurance that So Kim Seng owed his debt to Semawis and the Generale and not to the banks. All the more reason, according to Kilsdonk, not to linger and simply await the banks' collection of this amount which will earn him nothing. So Kim Seng, however, denies that he is not obligated to either the Chartered Bank or the NIEM and points out that he has certainly benefited from the extended credit. After all, the money in question was received in the form of merchandise enabling him to conduct his trading business. He himself may not have had any business with the banks, but could this dismiss him of all responsibility? Besides:

S.K.S.: Apakah toean djoega tida kasihan kalau saja moesti meroegikan pada marika itoe?
K.: Tida, soedah begitoe moestinja. Bagaimana sobat sobat poenja teman teman di Pekodjan[157] soedah berlakoe. Marika itoe kebanjakan soedah djatoh, tapi mendapat oentoeng besar dan merasa senang. Sobat tida bisa bersaingan dengan marika itoe dan lama lama sobat akan djatoh dengan terpaksa.

S.K.S.: Don't you too feel sorry, when I cause them such a loss?
K.: No, it has to be like this. Don't you have friends in Pekodjan where this has already happened? Many of them have already fallen, but they have profited greatly and are feeling fine. You cannot compete with them and sooner or later you will be forced to shut down.

S.K.S.: Seandainja saja maoe membikin accoord; dengan berapa percent kira kiranja saja poenja crediteuren ada merasa senang?
K.: Kalau sobat memberi 60 percent, semoea tentoe soeka dan malah marika membilang terima kasih djoega.

S.K.S.: Suppose I want to settle; with how much percent approximately can I satisfy the creditors?
K.: If you give them 60 percent, they will all certainly like it and they will express their gratitude as well.

Upon hearing this percentage So Kim Seng starts to laugh. While chuckling he makes it very clear that this is not what he had in mind and therefore unacceptable.

[157] Busy shopping street in Semarang just north of the official Chinese settlement area across the *kali* Semarang where many Chinese lived and worked ever since the first decades of the nineteenth century. Running north-south this street connected the European commercial area with Semarang's China town (Widodo 1988: 6, 8, 13, 20, 31).

S.K.S.: 60 Percent! Boeat sebegitoe tida haroes saja failliet. Tida; kalau saja failliet saja maoe dapat oentoeng lebih dari itoe. Dengan 60 percent oentoeng saja tida seberapa besar.

K.: Hal itoe sobat boleh timbang timbang lagi. Sekarang jang terlebih perloe iaitoelah bahoea sobat djangan membajar pada saja pada tanggal 12, soepaja saja bisa soeroeh membeslag. Kalau soedah, saja berminta pada firma jang lain akan bikin accoord.

S.K.S.: 60 Percent! This way I do not need to default. No, if I default I want to get more profit than that. With 60 percent my profit is not that much.

K.: That matter you may reconsider. For now, the most important thing is that you do not pay me on the 12th, so that I can order the seizure. If that is taken care of, I will ask whether the other firms agree with a settlement.

At this point in the conversation So Kim Seng appears somewhat confused. Seemingly unable to make up his mind, he remains silent for a while. By now, Kilsdonk has had enough of the indecisive behaviour of the Chinese. When So Kim Seng changes the subject and asks whether he can receive part of his merchandise in storage at the HVA godown, the answer is very short:

K.: Tida boleh; lebih doeloe sobat moesti failliet.

K.: That is not possible, first you have to default.

What can be concluded from the scene depicted above? The situation was obviously an attempt from the side of the HVA to profit from the extremely precarious trading situation in Semarang. By persuading one of its Chinese customers to default, the competition would have been dealt yet another blow. It was even alleged that if this scheme had succeeded two competitors – the Firma G. Hoppenstedt and the Import Maatschappij Soenda – would not have survived.[158] Tellingly, these companies constituted So Kim Seng's main creditors and in the process of doing business they had extended many thousands of guilders worth of merchandise to him. However, So Kim Seng's financial position was undisputed as he

[158] It cannot be ascertained with certainty whether this outcome was actually intended by the HVA as it would have required intimate knowledge of the financial position of both companies. However, it is not unlikely that the HVA had obtained such information or had picked up rumours on the subject. Compared to the HVA, the losses 'Hoppenstedt' and 'Soenda' had incurred as a result of defaulting clients were significantly higher and must have been of graver consequence considering the larger resources of the HVA (Table 4.3; *SH*, 12-08-1908).

owned a profitable cigar factory next to his trading activities. It was estimated that his assets totalled *f* 150,000 against liabilities of approximately *f* 50,000.[159] With a threefold coverage of debt So Kim Seng's credibility was not being questioned by his suppliers. Besides, over the years So Kim Seng had acquired a reputation for paying his debts promptly and in time.[160]

Under the depressed circumstances of that time the HVA, like any wholesale import trader, was very happy to count So Kim Seng among its regular customers. But So Kim Seng conducted most of his business with 'Hoppenstedt' and 'Soenda'. In order to break into these existing relationships the HVA could, for instance, offer lower prices and/or improve its credit facilities, but in the short rum these measures would certainly decrease profit. It would take time before a sufficient increase in turnover had been generated to compensate for this. In addition, the response of 'Hoppenstedt' and 'Soenda' would predictably lead to a long and drawn-out conflict from which only So Kim Seng would benefit. The HVA thereupon decided to force the matter by bringing So Kim Seng down. This would ideally mean the end of 'Hoppenstedt' and 'Soenda', but at the least it would cripple their financial position and thereby their competitiveness. As it turned out So Kim Seng put up much more of a fight than the HVA had expected.

On Wednesday 5 August 1908, the day before the conversation reported above, the HVA had made its first move by serving So Kim Seng a summons to pay a small debt of *f* 500 which had expired 5 days before, deliberately not sending a reminder beforehand, even though this was customary. As another precaution the claim was made at half past five in the afternoon when money could no longer be withdrawn from the banks. Fortunately So Kim Seng had enough cash in the house to pay the debt, but this was refused to his astonishment. Realizing that he had to act immediately, So Kim Seng went to H.J. Valkenburg, the manager of Import Maatschappij Soenda, and asked him for advice. Valkenburg decided the best thing to do was to call in the help of a lawyer and that very same evening both men paid a visit to laywer J.H.L. Bergsma. With his help a

159 *De Locomotief*, 08-08-1908.

160 So Kim Seng certainly lived up to his creditors' expectation as he was one of the very few to faithfully pay the banks the money he originally owed 'Semawis'. On 7 August 1908 he had already repaid about *f* 5,994.78 of acceptances bearing his signature which 'Semawis' had used as collateral to obtain credit from the banks. According to Keuchenius this left only one more acceptance to the amount of *f* 2,000 to be paid on 10 August 1908 (BI/DJB 1346, 07-08-1908).

legal document was drawn up recording the evening's events, whereupon So Kim Seng officially handed over *f* 500 to Bergsma.

We can only guess what kind of discussion took place in the office of the HVA the following day. The plan had failed miserably first of all because So Kim Seng had possessed sufficient cash. Moreover, because of his swift reaction the existence of a legal document now precluded an appeal to the court for outstanding debts. In a get-together the Semarang agent of the HVA, F.C. Drescher, and Kilsdonk decided that the only way to proceed was by obtaining the co-operation of So Kim Seng himself. Kilsdonk would point out to him the obvious gains in defaulting and offering a percentage. He could reassure So Kim Seng by promising that the moment he started a new trading business the HVA would gladly allow him a large credit account. With this message Kilsdonk appeared on So Kim Seng's doorstep early in the morning of Thursday 6 August 1908. As we have seen, So Kim Seng reacted cautiously by indicating that he needed some time to think about the proposal he was suddenly offered. His request was generously granted by Kilsdonk and both men agree to meet each other again at two o'clock.

In reality, So Kim Seng did not need any time to contemplate matters. As soon as Kilsdonk left his *toko*, he notified Valkenburg about the fraudulent scheme the HVA had worked out to the detriment of Import Maatschappij Soenda. Valkenburg wasted no time. He immediately informed agent Keuchenius of DJB as well as the agents of the other banks, and conferred with the manager of Firma G. Hoppenstedt regarding their countermove. In order to fend off the threat to their business they needed to prove malicious intent by the HVA. H. Dermout, deputy manager of Firma G. Hoppenstedt and M. Snijders of the Import Maatschappij Soenda, were instructed to overhear the conversation between Kilsdonk and So Kim Seng. Dermout and Snijders succeeded in arriving unnoticed at the Chinese *toko* a little before Kilsdonk, hiding themselves on the *loteng* (loft) directly above the court yard. When carefully leaning over they had an excellent view of Kilsdonk three metres below, as he sat on the bench and studied the goldfish. Completely unaware of the fact that the two men were listening to every word he says, Kilsdonk repeated the offer he had made to So Kim Seng a few hours before.

The Chinese played his part well and no suspicion crept into Kilsdonk's mind as he insisted that So Kim Seng had to declare himself insolvent. Kilsdonk assured him that a settlement of 30–40% was also possible and dismissed all his objections light-heartedly. Meanwhile, Dermout and Snijders in their unenviable position right under the hot zinc roof are

registering the event. When Kilsdonk started to repeat himself and once again lent on So Kim Seng not to pay his debt of 270 guilders on 12 August they decided to expose Kilsdonk and show themselves.

> Sekarang soedah tjoekoep, So Kim Seng akan bajar oetang itoe, tapi kamoe H.V.A. kamiorang soedah tandai dan kelakoean maatschappijmoe kamiorang akan memaloemkan.
>
> Enough, So Kim Seng will pay that debt, but we have noted you HVA, and we will make the behaviour of your firm publicly known.

Kilsdonk was dumbfounded, as if struck by lightning. So Kim Seng, quite understandably, was not feeling very comfortable either. The only thing Kilsdonk muttered before slinking away is *di sumber geledek adanya* (all evil is rooted in the source). After his departure the two witnesses headed for their offices to report events while So Kim Seng immediately disappeared to his cigar factory.[161]

The remark made by Kilsdonk is very interesting, not because of the attempt to justify his little conspiracy, but because of the implication that the prevailing trading conditions were at the core of the problem. What Kilsdonk seemed to imply was that all traders had been poaching on each other's territory for years and that fake defaults accompanied by *sluipaccoorden* were part of the game. This view was adopted by several commentators after the affair had come out on Saturday 8 August with a publication by Dermout in *De Locomotief*. The tenor of their argument was that inexcusable though the deeds of the HVA were, only those without fault should throw the first stone.[162] While this was generally acknowledged, most people disapproved strongly of the kind of methods the HVA had used, not least the Semarang Chinese who decided not to let this pass.

On 27 August 1908, 28 Chinese merchants signed a notarial agreement which forbade any one of them to trade with the HVA. The conditions stated in the contract were similar to those in the Surabaya case of 1902 indicating that the participants meant business. The HVA was thus faced with another boycott. This time the signatories clearly aimed to make the boycott a truly general movement. Circulars were sent to Chinese traders in Yogyakarta and Solo and even in Surabaya and Batavia attempts were made to boycott the HVA. Considerable pressure was exerted to have all

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161 BI/DJB 1346, 07-08-1908; *Pembrita Betawi*, 12-08-1908; *Kabar Perniagaan*, 11 and 12-08-1908; *De Locomotief*, 08-08-1908; *SH*, 12-08-1908.

162 *De Locomotief*, 10-08-1908; *SH*, 15-08-1908. See *SH*, 13-08-1908 for a contrasting point of view.

traders participate in the movement. In Semarang, for instance, flyers were posted on every wall inside the Chinese settlement with calls to join the boycott and threatening everyone with the "heaviest punishments from the heavens" should they refuse.[163]

Drescher realized that things had turned for the worse. He had drawn courage from the opinion that virtually no trader had a clear conscience, convincing him that the affair would blow over. But now this prospect was shattered. The morning after the Chinese made their intention public Drescher visited Keuchenius and asked him to use his influence to break the boycott. Keuchenius declined, answering that with Surabaya in mind little could prevent the HVA from once again having to pay the *f* 25,000 which the Chinese demanded.[164] As before, the HVA pulled every possible string in the hope of finding support. In the first days of September, J.H. Roodhuyzen – deputy manager of the HVA in Surabaya – travelled to Semarang where he tried to move the government into action, but officials instead advised Roodhuyzen to settle the matter amicably.[165]

With the government refusing to intervene Directors and Commissioners in Amsterdam decided that it was time for harsher measures. The minutes of their meetings indicate that they were especially worried about the company's image. So far the financial consequences of the boycott were bearable as the boycotters cost the Semarang branch *f* 190,000 of turnover, about 7,5% of an annual total of *f* 2,500,000.[166] However, the uproar seriously damaged the reputation of the HVA. Charges were therefore pressed against Dermout for deliberately misrepresenting the conversation between Kilsdonk and So Kim Seng, but only after Dermout had refused to voluntarily sign a statement to that effect.[167] Almost simultaneously and in contradiction to this approach the HVA then proceeded to fire Drescher and Kilsdonk. The public took this as a confession of guilt and pitied the two men who, it was generally assumed, had only followed management directives.[168] In the opinion of the *Pembrita Betawi* the company's employees did not deserve to be punished for a policy designed by its management. The dismissal of Drescher would not help the HVA.[169]

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163 *SH*, 01-09-1908; *De Locomotief*, 29-08-1908 / 01-09-1908.
164 BI/DJB 1346, 28-08-1908.
165 NA/HVA 1 Minute Book 4: 69; *De Locomotief*, 02-09-1908; *SH*, 04-09-1908.
166 NA/HVA 1 Minute Book 4: 69.
167 *Kabar Perniagaan*, 04-09-1908; *De Locomotief*, 07 and 09-09-1908; *SH*, 09-09-1908.
168 NA/HVA 1 Minute Book 4: 75; BI/DJB 1505, 15-10-1908; *De Locomotief*, 12-09-1908 / 13-10-1908; *Pembrita Betawi*, 12-09-1908; *SH*, 14-09-1908; *Kabar Perniagaan*, 15-09-1908.
169 *Pembrita Betawi*, 12-09-1908.

In the meantime the boycott gained in strength. In Semarang 86 Chinese traders signed the contract during the first week of September. A few weeks later it was alleged that, barring a few exceptions, all Chinese within the city were involved. The rest of Java did not follow quite as enthusiastically and had to be persuaded with more difficulty. For this purpose members of the Chineesche Handelsvereeniging in Semarang[170] even travelled to Yogyakarta and Solo to explain the boycott's objectives and convince sceptics of its righteousness.[171] In the beginning of October 1908 the Board of Directors of the HVA decided that the situation was growing out of control and needed to be investigated on the spot. Director Vroeg arrived in Batavia in early November, and was received by the Governor-General and President Vissering of DJB. Vissering confronted Vroeg with the fact that the HVA did not enjoy a good reputation in general. The company was accused of being too 'sharp' in business and both European and Chinese trading firms could muster little sympathy for it.[172]

DJB would not help out, but was prepared to explore the possibility of an understanding. It requested Kan Hok Soei, an influential Chinese landlord and rice trader, to contact the Chinese in Semarang and carefully inquire about the feasibility of lifting the boycott. In his letter to the Chineesche Handelsvereeniging in Semarang Kan Hok Soei mentioned that DJB was of the opinion that the boycott was starting to acquire the traits of a political campaign[173] and reeked of extortion. Naturally Chinese feelings were inflamed after excerpts of this letter were leaked to the peranakan newspaper *Warna Warta* and DJB swiftly withdrew afraid of burning its hands.[174] The HVA was left on its own and had to weigh its options. On 3 December it fired its Chinese cashiers in Semarang, because – as before in Surabaya – business information had been given systematically to the leaders of the boycott.[175] However, there was actually very little it could do.

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170 The Chineesche Handelsvereeniging (Chinese trading association) had been established on 31 December 1907. See for its statutes and an early list of its members in Chinese the Collection Vleming (Portfolio 16, Folder *Chinees zakenleven*) kept in Amsterdam at the IISG/NEHA.

171 BI/DJB 1505, 04-12-1908; *Kabar Perniagaan*, 04-09-1908; *Pembrita Betawi*, 12-09-1908; *De Locomotief*, 21-12-1908.

172 NA/HVA 1 Minute Book 4: 87; BI/DJB 1505, 04-12-1908.

173 See *De Locomotief*, 19, 21 and 22-12-1908 for an extensive exploration of this theme.

174 BI/DJB 1505, 04-12-1908; *Bataviaasch Nieuwsblad*, 03-12-1908; *De Java-Bode*, 03-12-1908; *De Locomotief*, 04-12-1908; *Pembrita Betawi*, 04 and 05-12-1908; *Kabar Perniagaan*, 04-12-1908.

175 *De Locomotief*, 04-12-1908.

In Amsterdam three scenario's were considered in a meeting on 19 December 1908. First, to buy off the boycott as had been done a few years ago. Second, to quit the import trade altogether. Third, to persevere and fight back as hard as possible. The first two options were discarded, because it would seem as if the HVA had given in to the Chinese. The third option essentially came down to a stubborn determination to continue business for as long as possible. No attempts were made to expand turnover by larger shipments or bigger credits, it was only permitted to sacrifice part of the profit by lowering the sales prices and underbidding the competitors to maintain the current level of turnover.[176]

At the end of January 1909, six months after the beginning of the boycott, DJB tried one more time to bring both parties closer to a solution. The situation had reached a deadlock; the HVA was financially too strong and too determined to be forced into surrender, but the same could be said of the Chinese. Moreover, their war chest was filled thanks to a small levy on each product sold and was skilfully managed by the Chineesche Handelsvereeniging. To discuss the boycott, Director Gerritsen of DJB travelled to Semarang on 29 January. He visited the President of the Chineesche Handelsvereeniging, the powerful Chinese sugar dealer The Ing Tjiang. The latter promised to bring the subject to the attention of the members. The results were however not encouraging and Keuchenius had to report that the HVA was still generally despised and even hated. It was his opinion that any new attempt to mediate would be utterly useless.[177]

The Ing Tjiang was a little more confident and decided to wait a few months. In April 1909 he raised the matter again, but this time the HVA in the person of Vroeg himself made a mess of it. Instead of letting The Ing Tjiang work quietly, he sent a rude letter to the Chineesche Handelsvereeniging. Its contents accused the association of lying to the HVA and claimed that several of its leading members were in charge of the boycott.[178] This ruled out a timely solution. The boycott had to wither away and this might have happened. Unfortunately, the sources remain silent. However, the HVA sold its import business in 1910 (see Chapter 2, Paragraph 'Wholesalers and retailers: Van Beek, Reineke & Co. / HVA' and Chapter 5, Paragraph 'The HVA and agricultural enterprise'). If the boycott was still

[176] NA/HVA 1 Minute Book 4: 87-91.

[177] BI/DJB 1505, 04-02-1909; BI/DJB 1346, 08-02-1909; *Pembrita Betawi*, 04-12-1908, 19-01-1909.

[178] BI/DJB 1505, 08-04-1909, 06-05-1909; NA/HVA 1 Minute Book 4: 116–117.

in force at that time, it would have died a silent death. It is interesting to speculate that the boycotts in Surabaya and Semarang contributed their share to the decision of the HVA to concentrate on plantation exports only. But the boycotts did demonstrate the economic strength and indispensability of the Chinese. In 1902 the Dutch still thought they could turn the tide; in 1908 they had recognized the inevitable.

CHAPTER FIVE

# THE ROAD TO EXPANSION (1910–1930)

Early twentieth century the Netherlands Indies witnessed rapid economic growth. Unhindered by government regulations and stimulated by increasing demand in the colony and abroad, production and trade expanded significantly. The outbreak of the First World War brought trade with Europe to a virtual standstill. Trade routes had to be redirected, supply lines replaced and new markets established. After the war, the trading business boomed. Indonesian export products like sugar, rubber and oil were in high demand and prospects never looked better. Colonial trade peaked in the 1920s. Complementing each other, Dutch and Chinese commerce constituted the core of this system.

Notwithstanding the incidence of Chinese trading boycotts, collaboration between these two pivots of the commercial sector continued. The trading system itself was never disrupted. The boycotts had grown out of ordinary business disputes and after the commercial negotiating position of the Chinese had been reinforced, trade continued to be governed by the same dynamics. Speculative credit transactions, cut-throat competition and occasional foul play all played their part in this. The Dutch and Chinese commercial spheres remained highly interdependent which – especially in times of economic prosperity – easily resulted in instances of collusion.

## *The Late Colonial State: Consolidation and Conflict*

In the 1890s the administration's policy of political abstention was abandoned. Effective colonial rule was extended throughout the Indonesian archipelago. During the tenure of former Aceh commander General J.B. van Heutsz as Governor-General (1904–1909) the political integration of Java and the Outer Islands was largely achieved. By the late 1920s the colonial state was firmly rooted and the archipelago seemed to be functioning as a coherent whole. Impressive export-led economic expansion contributed its share to this process, although the dependence on external markets increased the vulnerability of the economy. At the same time rising Indonesian nationalism marked the development of

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powerful new currents contradicting the steady consolidation of the colonial state and economy (Dick et al. 2002: 111–113; Ricklefs 2001: 188–189; Stapel 1941: 116–117).

Around 1900 the Dutch were the undisputed rulers of a vast and populous country. In 1900 the total population of the colony amounted to 42 million, rising to 60 million in 1930. Population growth was more rapid among Europeans and Chinese than among the indigenous population. When compared to the indigenous population these groups remained tiny. Although the non-indigenous population of the Netherlands Indies doubled in size, from 0.7 million in 1900 to 1.5 million in 1930, these numbers only constituted 1.7% and 2.6% of the total.

On the island of Java[1] the number of Europeans reached 62,500 in 1900 and would increase to about 190,000 in 1930. The Chinese population numbered approximately 227,000 in 1900 against 582,000 in 1930. The indigenous population counted 28,5 million in 1900 and would reach almost 41 million in 1930. Set against these figures the European and Chinese presence in Java was marginal, amounting to only 0.22% and 0.80% in 1900, increasing to 0.46% and 1,42% in 1930 (Boomgaard and Gooszen 1991: 113–121, 131–135, Dick et al. 2002: 112–113). Within the major cities of Java the European and Chinese presence was more marked. In 1930 Chinese accounted for 14.8% of Batavia's, 11.4% of Surabaya's and 12.6% of Semarang's population. In the same year Europeans made up 6.9% of the total population of Batavia, 7.7% of Surabaya and 5.8% of Semarang (Boomgaard and Gooszen 1991: 219–221; Dick 2002: 125).

The population in the Outer Islands grew from 8 million in 1905 to approximately 19 million in 1930. The distribution of the colony's population changed with the share of the Outer Islands rising from 20% to 31%. Exports expanded particularly fast in the Outer Islands and in the early 1920s the share of the Outer Islands in total exports exceeded 50%. The Outer Islands became the biggest earner of foreign exchange in the Indonesian Archipelago. Demand for imports in the Outer Islands lagged behind export revenues and a huge surplus was generated on the trade balance of these regions. By contrast, Java's export revenues were spent more on purchases for foreign imports (75% on average in the case of Java against less than 50% for the Outer Islands). Therefore, the Outer Islands offered the trade balance surplus, whereas the core of Java offered the

[1] The population statistics of the island of Madura, located at the northeast coast of Java, form part of the population figures for Java. This applies for the indigenous and non-indigenous population numbers given.

political protection to facilitate investment in export production (Dick et al. 2002: 130; Lindblad 1989c: 15; Touwen 1997: 35–39, 271–272).

Economic integration of the Indonesian archipelago followed in the wake of political and administrative integration. A single customs area for the colony was established in the 1900s. After 1904 the shipping lines of the KPM were rapidly extended to even the remotest areas of the archipelago. Monetary integration finally proceeded following several money purges and the introduction of a uniform coinage: the Netherlands-Indies guilder. Infrastructural developments such as railway and road construction, intensification of the telegraph and postal network – accompanied by the introduction of aviation and telephone – ensured regular and reliable communications.[2] (See also Chapter 2.)

Private business profited from these developments and was aided by the liberal trade regime with scarcely any tariffs or trade barriers to imports. (A situation that would last from the repeal of the Differential Tariff System in 1874 to the proclamation of the Crisis Import Ordinance of 1933.) In addition the expanding colonial state offered a favourable investment climate for private capital. The safety of personnel and property could now be guaranteed in virtually every corner of the colony. The prevailing tax system was appealing to (potential) investors since it allowed a substantial part of gross earnings to be retained in the business or to be paid out to overseas owners. Furthermore, the extension of business was greatly facilitated by the standardisation of legal and administrative arrangements across the different regions of the colony. Foreign investment thus saw an accumulation from *f* 750 million in 1900 to *f* 4 billion in 1930 (Dick et al. 2002: 115–117).[3]

### *Ethical Policy*

The economic *laissez-faire* policy lasted until the crisis of the 1930s with one important exception. Around 1900 a new colonial policy was formulated which called for direct state intervention in economic life. The so-called Ethical Policy was officially endorsed by Queen Wilhelmina in 1901 with the announcement of an inquiry into welfare in Java. Its origins can be traced back to the 1870s when the notion of a moral obligation or 'Debt of Honour' (*Eereschuld*) towards the pitiful Javanese first gained ground.

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[2] See à Campo (1992: 558–562), Cribb (2000: 140–141), Dick et al. (2002: 131), Ravesteijn and Kop (2004).

[3] For more details regarding the subject of foreign investment see Chapter 6, Paragraph The Incidence of Failure: Bankruptcy Cases and Business Fraud.

Still, it would take until the late 1890s before a heated public debate in the Netherlands finally put the topic on the political agenda (Idema 1924: 133–137, 155–164). The Ethical Policy sought to protect the 'poor' and 'unenlightened' Javanese peasant against the oppression by feudal Javanese overlords and ruthless Chinese. Its formulated lofty goal was to raise the prosperity of the indigenous population through direct state intervention in economic life.

The period 1894–1905 prepared the ground for the heyday of development policy in the years 1905–1920 (Boomgaard 1986; Hüsken 1994). The colonial administration promoted its principles under the slogan: 'irrigation, education and emigration'. The improvement of irrigation facilities would raise agricultural productivity. Better education would increase opportunities for the indigenous population.[4] Emigration to the Outer Islands would reduce the population pressure in overcrowded Java.

Implementation of the Ethical Policy was entrusted to numerous government bodies[5] and aided by budgetary expansion. Unfortunately, the ideas put forward generated more promise than performance. Of all the initiatives investment in irrigation probably had the most tangible and lasting impact (Ravesteijn 1997). Nevertheless, growth in agricultural productivity was slow. Educational opportunities remained highly unequal as shown by a literacy rate of 7.4% of the indigenous population in 1930 (Cribb 2000: 144; Ricklefs 2001: 203). Likewise, emigration policy failed to achieve its targets with only 250,000 Javanese living in settlements outside Java in 1941.

The economic downturn of the early 1920s and 1930s started a period of consolidation and eventually deterioration of the Ethical Policy. The political will to initiate ethical programs waned as the administration embarked on a policy of expenditure cuts to balance the budget. The limited scope for action disillusioned administrators who came to view the Ethical Policy as overly ambitious. Spokespeople for the indigenous population considered the reforms hopelessly inadequate. In addition, progressive attitudes had to make way for a more conservative and repressive regime in response to growing nationalist opposition (Dick et al. 2002: 117–121; Locher-Scholten 1981: 203, 205–206; Ricklefs 2001: 193–205).

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[4] Albeit with the aim of transmitting Western civilization and providing colonial enterprise with a more skilled labour force.

[5] These included the Department of Agriculture, Industry and Trade (1904), the Department of Civil Public Works (1908), and the Department of Education (1908). In addition specialist agencies were created such as the Agricultural Extension Service (Landbouwvoorlichtingsdienst 1910), Civil Medical Service (Burgerlijke Geneeskundige Dienst 1911) and the People's Credit Banks (Volkskredietbanken 1912).

The Ethical Policy turned out to be the administration's last 'article of faith'. Its term was a clear misnomer, inspired heavily by a new sense of destiny which accompanied the beginning of the twentieth century.[6] 'Progress' became the rallying cry of the new era as shown in the frequent use of words like *ontwikkeling* (development), *opheffing* (uplifting) and *welvaartsbevordering* (promotion of welfare). The exponents of the Ethical Policy saw progress as the only way to modernity. Progress was seen as an evolutionary process under Dutch tutelage and modernity equalled Western civilization with the Dutch as a prime example in the Indonesian archipelago. The aim was the moral as well as material advance of the indigenous population. However, in the end the fundamental acts of exploitation and subjugation were not altered.[7]

### *Indonesian Nationalism*

The Ethical Policy gave added impetus to the development of political consciousness and the rise of Indonesian nationalism.[8] The first modern political association in the Netherlands Indies was *Budi Utomo* (Beautiful Endeavour). The organization was founded in 1908 to promote the cultural and educational interests of the Javanese lesser *Priyayi*. It was a moderate political organization which did not play an active political role and never gained much popularity. A more radical movement emerged in 1911 with *Sarekat Dagang Islam* (Islamic Trade Union) (Korver 1982). Set up as a Javanese traders' cooperative to assist *batik* (textile) traders against their Chinese competitors it soon developed into a mass political party. In 1912 the organization changed its name into *Sarekat Islam* which obscured its commercial origins. *Sarekat Islam* achieved mass popularity and developed a popular and radical political consciousness.[9]

Developing political consciousness in the Netherlands Indies followed three patterns of thought. First, Islamic modernism became a major political force. In the view of Islamic modernists true Islam was entirely

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[6] Unclear objectives severely impeded efficient and speedy implementation of policy initiatives. Internecine strife within the colonial administration complicated matters even further (Locher-Scholten 1981: 176–208; Van Doorn 1996: 74–75, 149–155, 219).

[7] See Locher-Scholten (1981: 179, 201), Van Doorn (1996: 149), Houben (1996: Chapter 4), Hüsken (1994: 215–217), Mack (2001: 96–118), Shiraishi (1990: 27), Wertheim (1956: 95–104).

[8] The nationalist movement has been extensively covered in many publications. The following account draws upon Cribb (2000: 146–148), Dick et al. (2002: 121–123), Houben (1996: Chapter 5), De Jong (1984 11a: 194–448), Van Miert (1995); Petrus Blumberger (1987), Ricklefs (2001: 203–244), Somers (2005: 167–180) and Wertheim (1956: 205–227, 312–321).

[9] In 1919 it claimed to have 2 million members, although the true number probably never exceeded half a million (Ricklefs 2001: 210).

compatible with modern science, technology and political power. This belief found its expression in the founding of *Muhammadiyah* in 1912 (Alfian 1969). Second, by focusing on the difficult circumstances under which people had to live within the colony socialism had significant appeal for the masses. Established in 1920 the *Partai Kommunis Indonesia* (Indonesian Communist Party, PKI) became the main exponent of this thought pattern. The third intellectual pattern envisaged the colony on a path to Western-style modernity. The benefits of modernity had to be made accessible to all people, not just a colonial or aristocratic elite (Dhont 2005). This pattern crystallized into a political movement when the *Partai Nasional Indonesia* (Indonesian Nationalist Party, PNI) was founded in 1927 by the young Sukarno, future president of an independent Indonesia.

At first the colonial authorities adopted a permissive approach to these forms of political organization. *Sarekat Islam* proclaimed loyalty to the Dutch regime, but as it spread violence erupted. In 1913/14 a severe outburst of violence in towns and villages occurred in which local branches of the *Sarekat Islam* were heavily involved (Sartono Kartodirdjo 1973: 142–185). Tensions mounted during the 1910s as ideological radicalization mixed with disappointment at the slow pace of political reform. The rising tensions culminated in the Communist uprisings in West Java and West Sumatra in 1926/27, which were rapidly and violently suppressed. The colonial government started to turn against the growing signs of discontent and radicalism from 1919 onwards. Surveillance and repression of opposition to Dutch rule was effectively undertaken by the *Politieke Inlichtingen Dienst* (Political Intelligence Service) (Poeze 1994). Political parties, trade unions, associations of all sorts, newspapers and magazines were watched and, if need be, silenced (Adam 1995; Cribb 2000: 145; Maters 1998). Nationalist leaders and party members were put under surveillance, given house arrest or deported.

This shift to conservatism and repression antagonized moderate nationalist leaders and radicalized what was called the *Pergerakan* (Movement). The name Indonesia was increasingly used amongst nationalists to reflect a feeling that the Netherlands Indies would ultimately be replaced as the political framework for the archipelago. This was formalized at a youth congress in Batavia on 28 October 1928, where the slogan 'One people, one language, one homeland: Indonesia' was adopted. After the crushing of the communist armed rebellion in 1926/27 the nationalists spread their ideas to a broader public, build up an organizational infrastructure and developed their political skills.

One way of achieving this was by participating in representative institutions established by the Dutch after the Decentralisation Law of 1903. This law provided a legal basis for decentralisation of authority to the local level. The first municipal governments or municipalities (*gemeenten*) were set up in 1905, followed in later years by regency councils in rural areas. The creation of the *Volksraad* (People's Council) in 1918 was the most obvious gesture towards decentralisation and increasing popular involvement in government. However, Indonesian participation in these councils was never proportionate to the size of their community and given the restricted powers of these bodies seemed unlikely to achieve independence.[10]

It can only be concluded that in the period under consideration the colonial state was faced with many questions for which it could find no solution. In J.Th. Lindblad's view the authorities tried to reconcile what was mutually incompatible. Administrative reforms embraced both decentralization and bureaucratic rigidity. Economic liberalism did not prevent the authorities from interfering with local society and economy. An ethically inspired reform policy was accompanied by fiscal restraint and increasing political repression. In the end no-one was satisfied and colonial authority could only be maintained through tightening repression (Dick et al. 2002: 123).

### *The Colonial Economy before 1914: The HVA in Trade and Agriculture*

In his account of DJB's centennial L. de Bree characterized the 1890s and the first few years of the following century as "possibly the most worrisome period in the history of the Netherlands Indies." When looking back upon those difficult years in 1928 the author's recollection of the deep sense of malaise pervading the colony was still vivid. De Bree listed several factors responsible for the colony's economic downturn, such as the unabated slump in world market prices, the recurring incidence of cattle and crop disease and an impoverished indigenous population.

[10] The issue of disproportionate participation touches upon the important issue of compartmentalization and segregation within colonial society. In general colonial rulers need a mechanism to enable a small foreign group to rule over a much larger indigenous population. To achieve this, social groups are usually kept apart to prevent them from conceiving a common interest. The Dutch produced a hierarchical, race-based society which manifested itself in separate chambers of commerce, separate laws, separate taxation etc. In fact, all aspects of life were racially distinguished from train tickets to toilets (Vickers 2005: 25–30).

Agriculture – the colony's 'life blood' – had been hit especially hard and its reorganization demanded great effort. But, De Bree reminded his readers that in the early 1900s agricultural enterprise had been put on a more solid footing and could finally view the future with more confidence.

His assessment of the colony's commercial sector was less positive. The steep price fall of agricultural products had diminished the profitability of the export trade and business had been greatly reduced. The sector's outlook remained grim for a long time. The export branch was highly dependent upon the fortunes of agricultural enterprise and lacked the possibility of influencing the market. Consequently, exporters could only accept low prices and wait for better times. The importers fared even worse. The population's decreasing purchasing power endangered the operations of wholesale and retail traders and led to the downfall of many. However, De Bree concluded that the importers had themselves to blame by maintaining a system of large and long-term credit extension to intermediate traders. Foolishly, no agreement to restrict this practice was reached which resulted in mounting losses (De Bree 1928: II 329–334, 421–422, 432).

De Bree's gloomy analysis of the economic situation was supported by contemporaries who generally dated the reversal of the colony's fortune around 1905 (De Bree 1928: II 432–433; Vissering 1920: 79–82; [Internatio] 1913: 25). Researchers today support the view that the decade before 1914 saw considerable acceleration in economic activity. There has been discussion concerning the severity of the depression in the preceding period.[11] However, a comparison between the late nineteenth and early twentieth century shows that entrepreneurs had to operate in very different economic environments.

In general, the final three decades of the nineteenth century witnessed a distinct weakening of the markets, especially those for primary products. Expansion in world trade decelerated and this affected the colony's economy. Trade volumes continued to increase, but much less than in the 1850s and 1860s. It would take until the beginning of the twentieth century before this slowdown in expansion was successfully reversed. The colonial economy accelerated again between the early 1900s and the worldwide depression of the 1930s. According to tentative calculations Gross Domestic Product (GDP) per capita rose about 13% over the period 1870–1900. It took less than half the time to achieve a growth of 23% over the period 1900–1913, and most of this was achieved after 1905 (Booth

[11] For an overview of this discussion, see Booth (1998: 29–34).

1998: 6). Other economic aggregates also indicate an improvement in the state of the economy (see Table 5.1). Export volume growth accelerated and increases in money supply reflected a higher incidence of monetization accompanying output growth.[12]

This economic expansion was export-driven and mainly derived from an improvement in the colony's commodity 'terms of trade'. In other words, the prices of exports on the world market rose faster than the prices of imports. This stimulated export producers to supply more to the world market. In addition, the colony's balance of trade saw an increasing surplus since a smaller volume of goods needed to be exported in order to import a comparable volume of goods (Korthals Altes 1994: 11; Dick et al. 2002: 123–124). Still, these circumstances came into being gradually. Contemporaries would have found it hard to predict a fundamental change in the colony's economic outlook.

In the first decade of the twentieth century it was far from clear how much longer economic hardship would have to be endured. The drop in money supply growth between 1885 and 1900 is indicative of a serious lack of economic activity. The food crop economy even failed to keep up with population growth. Per capita rice production and consumption fell after 1885 although the expansion of non-rice food crops ensured that there was no mass starvation. Judged by the downward movement of cotton cloth imports in the late 1890s and early twentieth century, indigenous

Table 5.1. Annual average growth in major economic aggregates, 1874–1940.

| Period | GDP (per capita) | Export volume | Money supply[1] | Terms of trade[2] |
|---|---|---|---|---|
| 1874–1900 | – | 3.1 | 2.7 | 4.2 |
| [1885–1900 | – | 3.9 | 1.6 | 4.1] |
| 1901–1928 | 1.7 | 5.8 | 3.6 | 5.3 |
| [1920–1928 | 2.3 | 7.7 | 4.8 | 6.8] |
| 1928–1934 | – 3.4 | – 3.9 | – 2.2 | – 6.9 |
| 1934–1940 | 2.5 | 2.2 | 3.8 | 2.2 |

[1] coins, notes and bank deposits
[2] indicating the relationship between export and import prices
Source: Booth (1998: 18).

[12] See Booth (1998: 34, 85–86), Creutzberg (1975: 20–22), Van der Eng (2002: 15–16), Korthals Altes (1991: 14–19, 46–56, 66–75), Dick et al. (2002: 100–101, 123–124).

purchasing power was affected negatively as well (Booth 1998: 22, 33, 95, 100–104).

Because of the extraordinary price developments in the 1920s the aggregated numbers in Table 5.1 give a highly distorted picture of the colony's economic performance throughout the period 1900–1928. The exceptional annual growth from 1920 to 1928 coloured the overall result, and actually influenced average values disproportionately. The price index of Table 5.2 allows a more refined picture of the change in the economic circumstances of the Netherlands Indies. It shows that until 1910 the colonial economy still had to cope with adverse trading conditions. This situation transformed during the next two decades. From 1910 there is a distinct surge in prices, albeit with severe fluctuations occasioned by events such as the First World War or the recession of 1921.

Bearing in mind the volatility in price movements, it is necessary to examine economic change year by year in order to ascertain exactly what happened. This has been done with regard to Java and Madura by looking at the value of imported and exported goods during the period 1900–1913 (see Table 5.3). These data needed to be deflated to assess real trade performance. Import and export values, as reported by customs officials at the time, were given in current prices only and subject to distortion by sudden changes in market prices. Therefore, an inflation correction has been applied to judge economic performance more accurately. Import and export values have been expressed in current as well as constant

Table 5.2. Price index numbers, 1870–1940 (1913=100).

| | Import products | | Export products | | Freights | | World market prices | |
|---|---|---|---|---|---|---|---|---|
| | x | s | x | s | x | s | x | s |
| 1870–1879 | 232 | 17 | 126 | 14 | 329 | 24 | 115 | 9 |
| 1880–1889 | 155 | 15 | 115 | 32 | 191 | 50 | 90 | 9 |
| 1890–1899 | 113 | 11 | 105 | 13 | 86 | 28 | 78 | 6 |
| 1900–1909 | 108 | 7 | 84 | 7 | 58 | 34 | 86 | 5 |
| 1910–1919 | 150 | 47 | 135 | 45 | 744 | 140 | 145 | 39 |
| 1920–1929 | 182 | 24 | 234 | 44 | 164 | 51 | 168 | 26 |
| 1930–1940 | 95 | 23 | 61 | 28 | 110 | 27 | 106 | 10 |

x = average index number
s = standard deviation indicating the relative importance of the fluctuations [expressed as percentage of the average index numbers]
Source: Korthals Altes (1994: 15, 159–166).

Table 5.3. Imports and exports, Java and Madura, 1900–1913: values (at constant prices x *f* 1,000) and index numbers (1913=100).

| | Import | | | | Export | | | |
|---|---|---|---|---|---|---|---|---|
| | Value | | Value at constant prices[1] | | Value | | Value at constant prices[1] | |
| 1900 | 126,909 | 39 | 110,356 | 34 | 184,099 | 52 | 221,806 | 63 |
| 1901 | 141,958 | 44 | 122,378 | 38 | 167,897 | 48 | 197,632 | 56 |
| 1902 | 127,234 | 39 | 128,519 | 40 | 173,511 | 49 | 234,474 | 67 |
| 1903 | 111,453 | 34 | 116,097 | 36 | 186,698 | 53 | 239,356 | 68 |
| 1904 | 126,405 | 39 | 122,723 | 38 | 192,662 | 55 | 229,360 | 65 |
| 1905 | 138,110 | 42 | 126,706 | 39 | 197,240 | 56 | 205,458 | 58 |
| 1906 | 146,972 | 45 | 133,611 | 41 | 208,786 | 59 | 254,617 | 72 |
| 1907 | 154,136 | 47 | 130,624 | 40 | 228,641 | 65 | 272,192 | 77 |
| 1908 | 172,402 | 53 | 152,568 | 47 | 327,744 | 93 | 381,098 | 108 |
| 1909 | 182,683 | 56 | 175,657 | 54 | 306,136 | 87 | 343,973 | 98 |
| 1910 | 228,240 | 70 | 248,087 | 76 | 285,839 | 81 | 321,167 | 91 |
| 1911 | 262,467 | 81 | 265,118 | 81 | 328,000 | 93 | 309,434 | 88 |
| 1912 | 281,100 | 86 | 278,317 | 86 | 347,704 | 99 | 328,023 | 93 |
| 1913 | 325,664 | 100 | 325,664 | 100 | 351,706 | 100 | 351,706 | 100 |

[1] deflated import and export values
Source: Korthals Altes (1991: 46–56, 66–76), Korthals Altes (1994: 159–166).

prices (Dick et al. 2002: 125, 148). The results were converted into index numbers with 1913 as a reference point to show changes in percentages.

The graphic display of these index numbers in Figure 5.1 shows the development of colonial trade from 1900 up to the advent of the First World War. The curves show that if only current prices had been used the export performance would have been undervalued with the opposite holding true for the import performance. Using the deflated import and export lines reveals that the negative economic trend of many years was successfully reversed long before the war broke out. The improvement of export conditions can be dated in 1905. Import conditions had to wait till 1907 to reach their turning point.

Knowing this, it does not seem odd that upon his arrival in Batavia in June 1906 G. Vissering – the newly appointed President of DJB – did not see any signs of the economic depression everyone had been talking about in the Netherlands (De Vries 1989b). He concluded that the colony

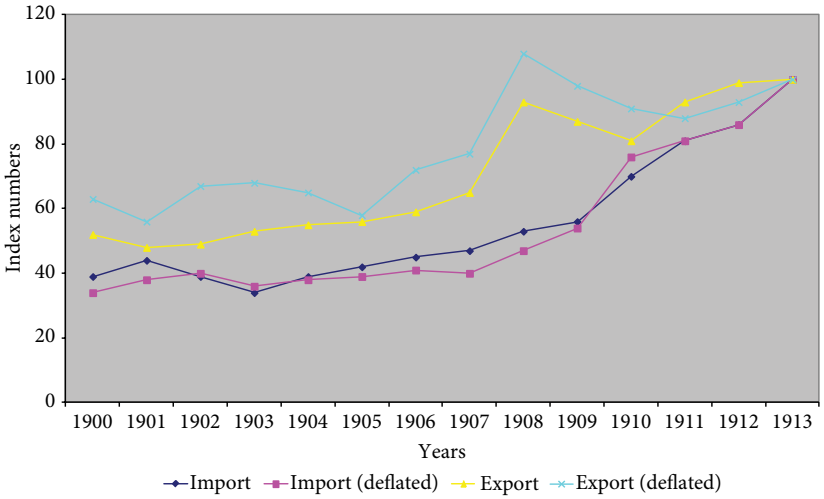


Fig. 5.1. Index numbers of imports and exports, Java and Madura 1900–1913 (1913=100).
Source: Table 5.3.

had finally overcome the crisis of 1884. According to Vissering, the year 1906 clearly saw the beginning of a new age for the Dutch colonial possessions in the Indonesian archipelago (Vissering 1920: 79–97; De Vries 1989a: 18).

*The HVA and Agricultural Enterprise*

This economic turnabout had a considerable impact upon business life in the colony. This can been in the unexpected, even dramatic, change in business strategy of the HVA in 1910. (See also Chapter 2, Paragraph 'Van Beek, Reineke & Co. / HVA'.) Suddenly, the company stopped its flourishing and lucrative trading business, choosing to specialize in managing agricultural enterprises and exporting their products. Outsiders were stunned since the HVA had built an outstanding position in the colony's wholesale trade. The scale and results of its trading activities contributed substantially to the company's overall profitability and compared well with the largest trading companies. In 1910, for instance, profits accruing from trade alone amounted to at least *f* 1,083,464.35, or 29% of total profits.[13] This was in no way inferior to that of strong competitors such as the trading giant Internatio (*Jaarverslag HVA* 1910; *Jaarverslag Internatio* 1910).

[13] Unfortunately, the financial accounts of the HVA do not allow a reliable calculation of all trading results as the consignment proceeds cannot be ascertained exactly. The commission received upon sale of consigned goods was put on a general account after

The radical change of course received a surprisingly summary treatment in the company's annual report. In a few pro forma sentences shareholders were first officially informed in June 1911, whereas the new approach had come into effect almost six months before. Without being consulted shareholders were confronted with a major shift in policy, characterized by one observer as: *den größten, schwerwiegendsten Entschluß im Leben der Gesellschaft* ("the biggest, single most important decision in the history of the company") (Helfferich 1914: 123). Objections were raised against this *fait accompli*, but were brushed aside with the meagre assurance that the interests of shareholders had been taken into consideration. Besides, consultation at an early stage had not been deemed necessary as Directors and Commissioners represented about half the issued share capital. As shareholders their decision to liquidate the trading business of the HVA could therefore never run against the interests of the remaining shareholders. This kind of fallacious argumentation did not fool anyone, but had to be accepted nonetheless given the powerful position of the management.[14]

The break with the past was presented as the logical outcome of practical considerations and sound reasoning. The past three years (1908–1910) had seen a significant enlargement of the company's interests in agricultural enterprise which, according to the Directors, had become increasingly difficult to manage and required all of their attention. Running a complicated trading business at the same time was simply too demanding. It was furthermore claimed that the two branches were separate concerns that failed to complement each other. This reasoning was obviously for the sake of argument since the HVA had successfully combined both businesses over thirty years.

In reality Directors and Commissioners had quarrelled for years about the appropriate strategy before they could finally agree on leaving the trading business (*Jaarverslag HVA* 1910; Helfferich 1914: 130). Cutting the knot proved to be painful for a number of reasons.[15] The return on trading activities was at best acceptable, certainly when compared to the results of the agricultural interests. This realization first dawned upon the

subtracting 6% interest to make up for the cost of having part of the company's capital tied up in credit arrangements. In 1910, this account showed a profit of *f* 295,012.73 which partly derived from trade transactions. Therefore, the trading branch of the HVA must have contributed even more than 29% to total profits in the year its management decided to dispose of it (*Jaarverslag HVA* 1910; Helfferich 1914: 130).

[14] NA/HVA 13 Shareholders' Meeting 1911.

[15] The following account is primarily based on the minutes of HVA Board meetings and the annual reports of the HVA. In addition, the excellent financial analysis of E. Helfferich in his Die Niederländisch-Indischen Kulturbanken has been used (NA/HVA 1, 10 and 11; Helfferich 1914: 120–143).

Directors Reineke, Ter Kuile and Vroeg in the beginning of 1908, after reviewing the general results of the import and export business. In a Board meeting on 7 February 1908 P. Reineke stated that the Singapore office showed poor prospects. Considering its importance as a transit point closure was hardly an option, because it would seriously impede the operations of the buying office in Manchester. Large textile shipments originated from England and the HVA could ill afford the loss of these vital imports. In Reineke's opinion the risk of having to close down the Manchester office was too great as it would bring the Java import trade of the HVA to a virtual standstill. It was therefore decided that one of the Directors would investigate the situation on the spot.

On 4 September 1908 the situation was reassessed after the net results of the preceding year had become available. It turned out that with an average working capital of *f* 3,314,000 the import trade had realized a net profit of *f* 299,306.29, a profitability rate of 9.03%. The export trade had done even better with a 10.93% profitability rate resulting from a net profit of *f* 115,215.98 which was based upon an average working capital of *f* 1,054,000. These results were considered very satisfactory. However, more detailed calculations told another story. With regard to the import trade the profitability of the Surabaya office (14.31%) contrasted sharply with the offices in Manchester (5%) and Singapore (3.08%). And although imports showed a nice return in relation to the amount of capital used, a different picture arose when the result was set against the level of turnover. With turnover at almost *f* 11,500,000, profitability reached only 3.4% which was indeed an improvement given the rate of 2.9% achieved in 1905 and 1906. By contrast, the profitability rate of HVA's agricultural interests amounted to 24% in 1907 (*Jaarverslag HVA* 1907; Helfferich 1914: 130, 136).

Undoubtedly, Reineke, Ter Kuile and Vroeg knew that the cost-effectiveness of the trading business left much to be desired, especially considering the excellent yields of the agricultural investments. However, they were not blind to the fact that the import trade in particular had a low rate of return which could only be countered by achieving a high turnover. What worried them more was the large amount of capital needed for this purpose. In 1907 the trading commitments of the HVA had required more than *f* 4,000,000. The question was whether (part of) this vast capital could not be put to better use by investing in agricultural enterprise such as sugar and coffee plantations.

It is clear that the company's management had severe doubts concerning the viability of the company's trading business. In accordance with

the steadily improving profitability and economic conditions for agricultural exports the decision was taken to focus more on agricultural business (see Table 5.4 and Figure 5.2.). The HVA's involvement in such enterprise soared abruptly from *f* 8,760,000 in 1907 to *f* 13,406,000 in 1908. Related profits more than doubled from *f* 796,000 to *f* 1,946,000. Both accounts continued to expand the year after to *f* 17,214,000 and *f* 3,065,000. This increase was financed by enlarging the company's own capital with almost *f* 10,000,000 in new shares (*f* 3,750,000), a debenture loan (*f* 4,500,000) and retained profits. No dividends were subsequently paid out in 1908–1909 for the first time in almost twenty years. Still, the financial demands of the agricultural business proved difficult to meet and in 1910 the HVA found itself in a liquidity crisis. Short-term capital to the amount of *f* 6,628,837.45 was provided by different creditors, but covered for only 74% by directly payable assets.

Table 5.4. Agricultural and trading activities of the HVA, 1901–1914: capital, commitments and profits (x *f* 1,000).

| | | Commitments[2] | | Profits[3] | |
|---|---|---|---|---|---|
| | Capital[1] | Agricultural | Trade | Agriculture | Trade |
| 1901 | 10,456 | 7,336 | 2,286 | 286 | 81 |
| 1902 | 10,291 | 6,680 | 2,223 | 125 | 295 |
| 1903 | 9,826 | 6,249 | 2,641 | 379 | 307 |
| 1904 | 9,990 | 6,019 | 3,297 | 1,261 | 325 |
| 1905 | 14,060 | 8,043 | 4,287 | 1,151 | 406 |
| 1906 | 13,881 | 8,592 | 4,327 | 809 | 550 |
| 1907 | 13,702 | 8,760 | 4,148 | 796 | 614 |
| 1908 | 16,767 | 13,406 | 4,551 | 1,946 | 682 |
| 1909 | 23,584 | 17,214 | 4,046 | 3,065 | 964 |
| 1910 | 23,273 | 20,604 | 4,784 | 2,364 | 1,083 |
| 1911 | 22,961 | 21,688 | | 2,422 | 352 |
| 1912 | 22,647 | 19,884 | | 4,274 | |
| 1913 | 22,332 | 18,470 | | 4,443 | |
| 1914 | 25,514 | 18,528 | | 8,069 | |

[1] long-term capital (equities, debentures and reserves)
[2] after write-offs
[3] excluding commission
Source: *Jaarverslag HVA* 1901–1914.

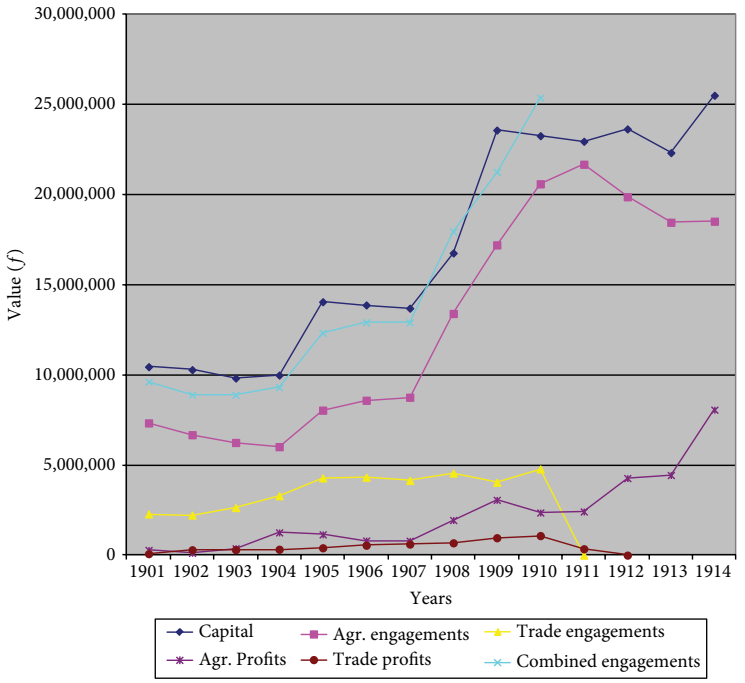


Fig 5.2. Capital, investments and profits of the HVA, 1901–1914.
Source: *Jaarverslag HVA* 1901–1914.

This situation owed much to the spectacular failure of 'Djatiroto', a giant sugar plantation situated in East Java between Lumajang and Jember in the residency of Pasuruan. 'Djatiroto' was intended to become the largest sugar estate in Java and land purchases to that effect were made as early as 1905. At the end of 1907 the total surface area of the plantation amounted to ca. 15,000 *bouw* or approximately 10,645 ha. In 1909 the brand-new sugar factory, equipped with state-of-the-art machinery, was ready to process an estimated daily amount of 80,000 *picol* (about 4,670 metric tons) of sugar cane. At this point approximately *f* 4,500,000 had been invested in 'Djatiroto' and the first harvests would have to make a substantial profit to satisfy people's expectations.

However, results were extremely disappointing with 'Djatiroto' operating at a loss of no less than *f* 987,056.83 in 1909 and *f* 1,097,721.59 in 1910. Huge cane fires, poor soil fertility and a variety of other problems regarding e.g. the administrative organization, irrigation management and labour all contributed their share. The HVA was forced to write-off vast sums while re-investing almost *f* 1,500,000 to pay for costly adjustments.

Towards the end of 1910 *f* 5,323,590.78 or 42% of the company's 'Djatiroto' investment had evaporated. This drain on the resources of the HVA continued. The harvests of 1911 and 1912 again reported huge losses to the amount of *f* 1,283,899.90 and *f* 963,941.10. Instead of becoming a money spinner 'Djatiroto' had turned into a serious liability.[16]

The HVA managed to survive these set-backs because of the excellent results of its remaining sugar interests, consisting of seven plantations acquired between 1892 and 1904. Their combined profits had to absorb the losses sustained by 'Djatiroto', but were also badly needed to support the company's smaller interests in crops such as coffee and rubber. In 1910 the HVA owned twelve agricultural enterprises, valued at *f* 20,604,000 and constituting 81% of all its commitments (see Table 5.4 and Figure 5.2.). The administration of these required the attention of all three Directors. Traditionally, this had been the task of only two of them, enabling the third to attend to trading matters. In a meeting on 7 October 1910 Reineke complained that it was no longer possible to keep up with all the work. The task of administering the agricultural affairs had become so demanding that he strongly recommended separating the trading branch from what had become the core business of the HVA.

Some commissioners powerfully voiced their disapproval, arguing that the positive trading results had been of considerable help the previous year. Although a trading profit of almost *f* 1,000,000 in 1909 was exceptional, it was also part of a distinctly upward trend in trade profitability since 1905. Moreover, with an impressive *f* 2,000,000 increase in turnover the preliminary results for 1910 indicated a higher profit than the year before. Those with serious doubts also seemed to object for nostalgic reasons. After all, the HVA had been established as a trading enterprise and this memorable past should not be discarded lightly. In addition,

[16] In later years the exploitation of 'Djatiroto' did show reasonably profitable returns. Between 1909 and 1926 the yield of the cultivated sugar cane showed a twofold increase, whereas the amount of sugar produced rose from 54,800 *picol* (i.e. 3,384 tons) in 1909 to 1,319,254 *picol* (i.e. 81,477 tons) in 1926. This result was achieved at the cost of a fortune. In 1927 'Djatiroto' had required a total capital investment of about *f* 25,000,000 with exploitation costs amounting to *f* 8,000,000 to *f* 9,000,000 each year. When balancing total costs and benefits, these 18 years showed a modest average profit of *f* 500,000 per year. However, this profit margin was inflated due to the high sugar prices resulting from the abnormal market conditions of the First World War and the bull market of the 1920s. These circumstances had seen windfall profits of *f* 22,000,000 in which case costs had outweighed benefits by over *f* 700,000 a year. No wonder that the journalist H.C. Zentgraaf would write that 'Djatiroto' was a business of "special dimensions" – employing over 15,000 Javanese and Madurese labourers to name but one thing – but not a "superior sugar enterprise from an agricultural point of view" (*SH*, 30 and 31-05-1927; 01, 02 and 03-06-1927.

concern was raised regarding the future of more than a hundred trading employees which would be made redundant. Finally, after much deliberation, the commissioners decided to let numbers speak not emotions. According to one of them: *Het eene bedrijf is een schitterend bedrijf; het andere bedrijf is gewoon een goed bedrijf.* ("One business is a magnificent business; the other business is simply a fine business.")

It was decided to keep the trading activities under the umbrella of the HVA, but operating independently under a different name and only loose supervision by one of the commissioners. A new import and export company was to be founded with total capital of *f* 4,000,000 provided by the HVA. Directors and Commissioners counted on an annual net profit of up to *f* 400,000 and average dividend payments of 8–10%. F.C. Söhlke and L.A. Willemse – senior HVA executives in charge of imports and exports respectively – were invited to become the company's first Directors. To everyone's surprise both men declined as they considered the risks too high and the financial rewards too low. Trade was notoriously sensitive to economic fluctuations and profits could easily turn bad. From their own experience an average net profit of *f* 300,000 was closer to reality, especially since the new company would lack the prestige and financial resources of the HVA and suffer from a diminished turnover and profitability.

These worries, expressed by experienced traders like Söhlke and Willemse, cast the future of the trading business in a different light. Reineke pointed out in a meeting on 22 October 1910 that the two men had been right to warn against unrealistic expectations. He pointed out that the agricultural commitments of the HVA were already by far the most important in Java, employing a total capital of *f* 30,000,000 throughout the year. The annual harvest value could be estimated at sixteen to eighteen, maybe even twenty million guilders. Managing a business of this magnitude ruled out a continuation of the trading business. Furthermore, investigation of the trading sector's profitability in general over the last five years revealed dividend payments of 6% and far below. This was an unacceptably low return on the amount of capital invested. With the company's liquidity dangerously low this kind of money could be put to better use. Upon reaching the end of his monologue Reineke made it clear that he favoured the liquidation of all trading activities in order to direct all resources and efforts towards agricultural enterprise.

This radical step was approved on 4 November 1910 after two rounds of elaborate discussion in which several alternatives were proposed and dismissed. Following this difficult decision, Internatio was contacted and asked whether it would consider taking over the trading business – including

all personnel – against payment of goodwill to the amount of *f* 500,000. Initially, Internatio declined. Trading certain articles would conflict with the interests of consignment relations and endanger existing business arrangements. The conditions stated by the HVA were also deemed unacceptable which did not come as a surprise. Reineke had already calculated that there was hardly any goodwill. It amounted to *f* 250,000 at best, which probably had to be sacrificed in order to persuade the new employer to take over the old staff. The HVA briefly tried to interest other trading companies such as the Rotterdam firm Jacobson van den Berg & Co., but without success. After dropping its demands, negotiations with Internatio were reopened. An agreement was reached on 23 December 1910 regarding a take-over of all the products handled in bulk, i.e. ammonia, phosphates, soap ingredients, iron, wood, cement, tar and matches. The well-known trading company Geo. Wehry agreed on 31 December 1910 to take over the remaining smaller items such as food and beverages.

In June 1912 Directors and Commissioners reported on the events of the previous year. If shareholders had expected a thorough account of the take-over by Internatio and Geo. Wehry they were to be disappointed once again. The liquidation of the trading business was hardly mentioned. Shareholders were merely assured that the matter had been settled satisfactorily and that any outstanding claims had been recovered without any loss. DJB confirmed this in a letter to its Amsterdam office which said that all clients of the HVA had paid their debts to the amount of *f* 1,500,000 in full and on time. Finally, the annual report of the HVA stated that the settlement of the last remaining trading transactions during 1911 had seen a profit of *f* 352,000. More than three decades of profitable trading activities had thus been brought to an end with a small financial bonus.

The dissolution of all trading commitments had an immediate and positive effect on the financial position of the HVA. The trading activities had absorbed *f* 4,000,000 tot *f* 4,500,000 of the company's capital each year. This money could be used to relieve the serious liquidity shortage resulting from the growth of agricultural investment. In 1910 directly payable assets had covered only 74% of short-term capital. The year after short-term capital extended by various creditors constituted only 52% of directly payable assets. This percentage was reduced to 42% in 1912. A look at the balance sheet of 1911 shows what had happened. Compared with 1910 the creditor account had decreased with *f* 4,000,000 (*f* 3,958,463.15 to be exact). In other words, the HVA had immediately used the additional funds at its disposal. It had reduced its dependence on capital that could be reclaimed on short notice and successfully managed to avert a severe liquidity crisis.

The glowing prospects of the colonial export business had enticed the HVA into focusing on agricultural profits. Following heavy investments, financial and management considerations soon called for a new business strategy. Directors and Commissioners ultimately bet all cards on the expansion of agricultural enterprise. The wisdom of this seemed obvious, because prior to 1914 the financial results of the HVA were outstanding. Profits increased substantially and the interests in sugar showed an impressive 20% return on capital invested. Excluding 'Djatiroto', the profitability rate of the sugar investments was staggering with percentages of up to 99%. At this stage the HVA was fully prepared to take advantage of the upswing on the export markets.

### *The Lure of Sugar in Trade and Banking*

> Engkong minta paopie, lekas besar, lekas pienter, dapat djodo poenja pabrik goela.
>
> Grandfather, please watch over me, so that I grow up fast and become clever and may get a consort owning a sugar factory.[17]

The example of 'Djatiroto' exemplifies the economic importance of sugar. The production and export of this product involved tremendous amounts of capital. Bankers were keen on securing part of this money. The revival of the economy in the first years of the twentieth century was above all export-driven. The colony responded to an increase in world demand for precisely those goods that the Indonesian archipelago could supply. Java's production and export of cane sugar was particularly important in this respect.[18] Many authors have argued that the sugar industry was

[17] This recitation is a telling example of the great attraction of sugar within colonial society at the beginning of the twentieth century. As described in the biography of Anny Tan, she was told as a young child to pray for her deceased grandfather while standing in front of the family altar holding burning incense sticks (Blussé 2000a: 209). Taking place in Solo, Central Java, the anecdote can be dated around 1920 when the production and trade of sugar in Java earned hundreds of thousands of people – Dutch, Chinese, as well as Javanese – a living (Gordon 1979: 252). Some acquired mind-boggling fortunes in the sugar business. Oei Tiong Ham – the immensely rich Chinese businessman from Semarang – was generally known by the public as the 'Sugar King' (*Radja Goela*) which suggests how strongly his 'sugar fortune' appealed to the people's imagination (Liem Tjwan Ling 1979; Setiono 2003: 249–276).

[18] Cane sugar production was introduced to Java by Chinese migrants around 1600. The Javanese had been familiar with sugar cane as a sweetener by chewing on the stalk. Javanese sugar production – so-called *gula mangkok* – involved extracting sap from the

responsible for the colony's economic prosperity which lasted right until the collapse of the world economy in 1930. The vigorous development of the Java sugar industry took off in 1902 when the artificial protection of the European beet sugar industry was terminated. Without the help of government subsidies and the imposition of high import duties beet sugar lost its competitive advantage on the world sugar market. Cane sugar producers welcomed this liberalization of the market with great enthusiasm.[19]

This was not unwarranted as demand for Java's sugar showed an immediate increase. Rapid population growth, rising incomes and higher standards of living bolstered demand in Asia where the most promising markets – British India, China and Japan – were to be found. As a result Java's sugar production and/or export doubled between 1902 and 1914 before stabilizing and then doubling again during the second half of the 1920s.[20] Eventually, the annual amount of sugar exported from Java would exceed two million tons, whereas total production reached an all-time high of more than 3 million tons in 1930. In 1929 sugar accounted for 40% of foreign investment in agriculture (*f* 2,000 million) while generating a large part of the money invested in railways, shipping, port facilities, etc. (In terms of volume, sugar was by far the most voluminous item carried on railways and ships, and handled in Java's ports.) Sugar would remain the colony's most important export product with an average share in export earnings of 32% in the 1910s and 28% in the 1920s.[21]

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flower stalks of palm trees, although cane juice was used at a later stage. However, this method failed to produce crystal sugar to meet foreign demand and be exported abroad (Bulbeck 1998: 107–109; Creutzberg 1975: 63; Leidelmeijer 1992: 95).

[19] See Bakker (1989: 58–59), Boomgaard (1988), Djie Ting Ham (1926: 13), Gimbrère (1928: 29–31), Tio Poo Tjiang (1923: 25–31).

[20] In the case of sugar, the development of factory production and export reflected each other as domestic consumption was relatively low and usually confined to home-made palm or cane sugar of lesser quality (i.e. *gula mangkok*). Total domestic consumption in the Interbellum has been guesstimated at a mere 100 to 150 tons a year, which amounted to less than 10% of the production destined for export (Creutzberg 1975: 63–64, 75; Tio Poo Tjiang 1923: 49).

[21] See Creutzberg (1975: 75, 143), Gimbrère (1928: 31–32, 37), Gordon (1979: 252), Khudori (2005: 19–36), Leidelmeijer (1997: 325, 328), Dick et al. (2002: 125–126), Tio Poo Tjiang (1923: 31–36, 48). Sugar constituted the most important export commodity of the Netherlands Indies throughout the late-colonial period. As an exporter of sugar Java was second only to Cuba in the world market. After succeeding tobacco as the country's biggest export earner in 1885, it would keep this position for more than forty years. In the second half of the 1920s it started to face increased competition from rubber (Booth 1998: 208). It would take the severe economic depression of the 1930s before rubber and petroleum finally managed to overtake sugar in terms of export value (Boomgaard 1988: 158; Booth 1998: 208; Dick et al. 2002: 125–126; Van der Eng 1993a: 188–208; Leidelmeijer 1992: 16).

This boom required huge capital outlays from planters and traders. In response, a surging need for credit developed which the banks in the Netherlands Indies were more than willing to accommodate (Djie Ting Ham 1926: 14–16). There were several reasons for this willingness to comply with the capital requests made by sugar traders. First, sugar was a bulk commodity, whose price development could be carefully monitored and for which a regulated and well-organized market existed. Second, sugar was ideally suited as collateral since it was in demand and could therefore be realized at any given time. Third, sugar loans to traders had a comparatively short running period of a few months which compared favourably with the long-term investments needed for agricultural production. This was not only psychologically reassuring, but also reduced the financial risk of the banks by preventing their assets from being tied up for too long. Fourth, with the majority of sugar deals being conducted in a foreign currency – most frequently in Pound Sterling – the extension of credit secured by sugar involved a substantial foreign exchange business. This profitable business was popular and customarily handled by the same banks from which the traders obtained their loans. This made the sugar trade a favoured finance object for commercial banks established in the Netherlands Indies (Gimbrère 1928: 74–75, 90).

*Trading and Banking*

The commercial banks distinguished themselves from specialized banks, such as the *Cultuurbanken*[22] (Agricultural Banks), mortgage banks and savings banks in focusing on the extension of short to medium-term commercial credit. They essentially provided working capital to trading enterprises, although most had other (agricultural) interests as well and were thus of a 'mixed' nature. Around 1900 the main commercial banks active – judged by their financial basis, operational cloud, credit extension, and profit generation – included De Javasche Bank (DJB), the Nederlandsche Handel-Maatschappij (NHM), the Nederlandsch-Indische Escompto Maatschappij (NIEM) and the Nederlandsch-Indische Handelsbank (NIHB). Together,

[22] The agricultural banks concerned themselves chiefly with long-term loans, usually in the form of holdings in agricultural enterprises. Given the minor importance of borrowed funds in their business operations the question can be raised whether they should be regarded as banks at all. The HVA furnished agricultural enterprises, e.g. 'Djatiroto', almost exclusively with fixed capital and thus exploited its own undertakings. The Koloniale Bank and the Cultuurmaatschappij der Vorstenlanden on the other hand were mainly concerned with business on commission which closely resembled the operations of large trading companies like Internatio (Van Laanen 1980: 30; Van Laanen 1990: 255).

they accounted for the lion's share of banking activities undertaken in the Netherlands Indies' (Van Laanen 1980: 30–32, 92).

Until the establishment of the NIEM in 1857, DJB had been the only private financial institution to which traders could turn for credit. Certain trading companies did provide financial services during this period, but generally preferred to reduce their risk in case of longer-term arrangements by leaving their own capital base intact and using credit obtained from DJB. This situation changed from the 1860s onwards when DJB lost ground to new, more specialized banking institutions such as the NIHB and the Chartered Bank. DJB entered into competition with these relative newcomers in a number of areas, such as the direct financing of commodity trade through loans on security. At the same time, however, DJB also carried out some of the functions entrusted to a central bank such as supporting failing private banks. In other words, when private banks ran into liquidity problems DJB had to bail out its competitors by acting as a lender of last resort (Van Laanen 1980: 36; Van Laanen 1990: 250–251, 254).[23]

These conflicting tasks proved hard to reconcile since DJB was compelled by its charter to establish and maintain agencies throughout the Indonesian archipelago at considerable expense. Financial considerations of this kind became especially acute when the colony's rapid economic expansion after 1900 required DJB to establish nine new agencies between 1906 and 1910 (De Bree 1928: II 439, 579).[24] This doubled DJB's existing network of eight agencies which had seen no expansion after the Amsterdam office had been founded in 1891. From a business point of view most of these investments were far from sound and financial compensation had to be sought in other commercial ventures. Established as a private corporate enterprise, with the colonial government as a major shareholder entitled to a percentage of the profit, DJB could ill afford to run a loss. To keep a surplus on its balance sheet despite higher operational costs required DJB's management to improve the company's cost-effectiveness. Competition with commercial banks was stepped up, especially in the lucrative financing of Java's export trade (De Bree 1928: II 440; Djie Ting Ham 1926: 44).

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[23] By displaying features of both commercial and central banking DJB was a rather peculiar organization. It might best be depicted as a private bank which behaved like a commercial bank by participating directly in the financing of trade, while performing some of the tasks of a central bank such as issuing notes and acting as a lender of last resort in times of (economic) distress (Van Laanen 1980: 35–36; Van Laanen 1990: 252).

[24] These included Pontianak (1906), Bengkalis (1907), Medan (1907), Banjarmasin (1907), Tanjung Balai (1908), Tanjung Pura (1908), Bandung (1909), Palembang (1909) and Manado (1910).

DJB's renewed focus on its revenue-generating commercial activities produced splendid results in the years before the First World War. Dividends paid out after 1906 varied between 11% and 16%, whereas the colonial administration saw its part in the profit rise from a meagre *f* 93,418.29 at the turn of the century to no less than *f* 820,802.38 at the outbreak of war. This was accomplished by a sharp increase in capital invested against interest. In 1900 total capital investments stood at *f* 31,593,000. This figure accumulated almost threefold until capital outlays totalled *f* 86,773,000 in 1914. The extension of loans on security to private enterprise played an important role as the share of this kind of investment over the same period rose from 22% to 57% (De Bree 1928: II Appendices A, B, I, $S_1$).

DJB's capability to finance this successful expansion of business owed much to its unique position within the banking system of the Netherlands Indies. The provisions of its charter allowed it to compete with the other banks on more favourable terms by making use of its note-issuing monopoly. DJB could enlarge the quantity of banknotes in circulation without repercussions as long as the bank's specie reserves equalled at least 40% of their total worth. These notes thus constituted DJB's principal means of credit. The surplus of gold and silver indicated the bank's unused credit potential (Gimbrère 1928: 91–92; Van Laanen 1980: 92). The recognition that there was substantial room for improvement in this respect soon dawned upon the President and Directors of DJB. In 1903 the bank's specie reserves covered 66% of the total value of banknotes in circulation. In 1913 this percentage had shrunk to 51%. A reduction which 'earned' DJB more than *f* 25,500,000 in additional credit facilities, although it still left a gold and silver surplus of well over *f* 12,000,000, i.e. an unused credit potential of almost *f* 30,500,000 (De Bree 1928: II Appendices C, F, P).

Apart from the printing and transport costs of the new banknotes, DJB's credit expansion was realized at little expense. Other banks were less fortunate. They had to finance their growing business activities by attracting outside funds on more onerous conditions. Expanding their credit operations, either through the enlargement of equity capital or the acquisition of loan capital, came at a higher price and hurt their competitive strength. More frustrating was the fact that its artificial cost-effectiveness allowed DJB to offer potential clients credit against interest rates which proved impossible to underbid. As a result, DJB built up an impressive clientele of highly reputable European and Chinese traders, accepting only the larger and most creditworthy among them.[25]

[25] Sugar traders preferred to settle their substantial credit demands at DJB and many of them were among DJB's best clients. This owed as much to the low interest offered, as to

The only rival to DJB in trade finance at the beginning of the twentieth century was the NHM, although it had to concede that the most sought-after clients invariably preferred to conduct their business with DJB (Djie Ting Ham 1926: 44–45; Gimbrère 1928: 92). The dominant position of DJB among the four largest commercial banks is shown by the fact that the amount of credit extended by DJB in 1905 accounted for 44% of total credit extended by the NHM, NIEM and NIHB combined (Table 5.5). This percentage would continue to climb to 71% in 1910, before decreasing to 61% in 1914. The result is impressive since DJB's charter only allowed the extension of credit for trading purposes. After excluding the amount of credit extended by the NHM and the NIHB to their agricultural banking business, DJB's dominance is even more telling with percentages recalculated at 54% (1905), 85% (1910), and 75% (1914).

The difference is largely explained by NHM's financial interest in the agricultural export sector which accounted for about one-third of the company's total banking activities in the years under consideration. The NIHB had only a very slight interest in the extension of agricultural credit following the crisis of 1884 after which it transferred most of its agricultural interests to a legally separate subsidiary: the Nederlandsch-Indische

Table 5.5. Credit extension within the commercial banking system of the Netherlands Indies in 1905, 1910 and 1914 (x *f* 1,000).

| | 1905 | | 1910 | | 1914 | |
|---|---|---|---|---|---|---|
| | x | y | x | y | x | y |
| DJB | 28,870 | 28,870 | 56,660 | 56,660 | 77,880 | 77,880 |
| NHM | 29,620 | 41,400 | 24,330 | 37,440 | 46,140 | 68,440 |
| NIEM | 20,900 | 20,900 | 28,620 | 28,620 | 33,330 | 33,330 |
| NIHB | 3,200 | 3,370 | 14,070 | 14,180 | 24,740 | 24,740 |
| Total | 82,590 | 94,540 | 123,680 | 136,900 | 182,090 | 204,390 |

x = excluding agr. banking business
y = including agr. banking business

Source: Van Laanen (1980: 100–101, 148).

the fact that the trade in Java sugar was controlled by foreign companies (of English, German, Chinese and Japanese origin) with little or no obligations to the banks operating in the Netherlands Indies. These traders were not bound on account of previous financial commitments. This allowed them to choose freely where to satisfy their capital needs and contributed to DJB's dominant position in sugar trade finance (Gimbrère 1928: 75, 92–93).

Landbouw Maatschappij (NILM).[26] The NIEM was the only bank with no 'mixed' interests from its inception in the 1850s. Founded as a 'pure' commercial bank it occupied a singular position within the colonial banking system and always refrained from the extension of long-term credit to agricultural enterprise (Van Laanen 1980: 38).

Table 5.5 also shows how fast DJB's business activities expanded in the decade before the First World War. This extraordinary growth stands out more clearly when compared with the achievements of its main competitors. Like DJB the other banks did however respond immediately to the growing demand for credit generated by the economic prosperity of the early twentieth century. New agencies were opened wherever the first signs of an economic upturn were detected.[27] These offices were located all over the archipelago and in places like Singapore, Penang, Shanghai and Hong Kong. The banks thus extended their operating network in a relatively short burst of activity.

This process of expansion was primarily financed through the investment of new equity capital.[28] Judged by the rising levels of outstanding credit for each of the banks concerned, the millions of guilders obtained were successfully employed. This is confirmed by the dividend rates paid out between 1903 and 1913, averaging 9% for the NHM, 8% for the NIEM and 12% for the NIHB. In the end, the total volume of credit extended by the four commercial banks in the period under consideration expanded

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[26] The agricultural banking activities of the NHM amounted to *f* 11,780,000 in 1905, *f* 13,110,000 in 1910 and *f* 22,300,000 in 1914. The relative importance of these activities came down to 28%, 35% and 32% when measured against the company's total extension of credit. The NIHB was hardly involved in the financing of agricultural enterprise with credit extended to the amounts of *f* 170,000 in 1905 and *f* 110,000 in 1910, i.e. 5% and 0,7% of total credit extended. From 1914 onwards the company's balance sheets no longer registered any agricultural interests. It does however deserve to be mentioned that the NHM and the NILM, the latter founded by the NIHB, often accounted for more than 50% of total agricultural banking business within the Netherlands Indies right until the end of the 1930s (Van Laanen 1990: 249).

[27] The NHM reacted to the positive change in the colony's economic outlook by establishing thirteen new agencies (1903–1913), followed by the NIHB with ten (1901–1913) and the NIEM with four (1902–1913). For the sequence of events and location of these agencies see Djie Ting Ham (1928: 50–51, 67–68, 90–91).

[28] The NHM raised it paid-up equity capital from *f* 35,783,000 to *f* 45,000,000 in 1901. As a result the working capital of the *Factorij* was expanded from *f* 8,000,000 to *f* 12,000,000 in 1903 and again from *f* 12,000,000 to *f* 16,000,000 in 1908. Likewise, the NIHB raised its paid-up equity capital from *f* 7,200,000 in 1905 to *f* 19,943,000 in 1914. The working capital of the company's head office in Batavia was increased repeatedly from *f* 2,500,000 to *f* 9,000,000 between 1906 and 1914. The paid-up equity capital of the NIEM saw a significant enlargement as well from *f* 3,000,000 in 1903 to *f* 10,500,000 in 1913. See also Djie Ting Ham (1928: 14–15, 48–51, 63–65, 91–93).

more than twofold and reached over *f* 200,000,000 in 1914. Approximately 90% of this amount was short-term credit intended mainly for the financing of trade conducted by private enterprise (Djie Ting Ham 1928: 14–17).

The developments outlined above make it clear that bank lending played a very important, if not critical, role in the business expansion of trading companies after the turn of the century.[29] (Retained profits fulfilled a similar role in the last quarter of the nineteenth century when business expansion was slower and less erratic.) The provision of credit was an intrinsic part of the activities of any trader. Trading companies routinely accommodated their suppliers and/or customers either by advancing money on their crops or by agreeing to payment in instalments. The extension of credit allowed traders to undertake business activities on a larger scale and to grow more rapidly in the volume of trade handled. However, with only limited capital resources, they regularly had to pay their bankers a visit to apply for financial support. The main purpose of lending – except in crisis conditions – was to finance the movement of trade and the growing of crops.

Conversely, trading companies were valuable customers to the banks because of the range of services they used, each of which provided an additional source of commission income. Since trading activities involved the generation of a high volume of transactions even a small commission percentage could easily accumulate to a large sum. The routine banking facilities required by the trading companies involved short-term credit and exchange facilities. This credit was provided by overdrafts the size of which fluctuated with movements in trade and the commodity's production cycle. As a sensible precautionary measure overdrafts had to be renewed on a regular basis, but they were occasionally 'rolled over' and could therefore acquire a position rather different from mere short-term finance.[30] In addition to routine transactions, banks also welcomed one-off services provided the risk was acceptable, e.g. by giving guarantees that their clients' bills would be honoured at maturity.

Because of the value to both sides the relationship between trading companies and banks tended to be long-term and supportive, in contrast to the familiar characterization of individual banking deals as short-term

[29] The following arguments with regard to the general conditions governing the relationship between trading and banking derive from the survey of G. Jones in his book on British trading companies in the nineteenth and twentieth centuries (Jones 2000: Chapters 1, 2, 8, and 12).

[30] The 'rolling-over' of overdrafts often meant that short-term credit facilities were in fact utilized to finance long-term business strategies.

and at arms' length. Ties were sustained over long periods and relied as much on trust as on contracts. On many occasions the risk assessment of banks rested heavily on senior bank managers' opinion of the managerial competences of directors and partners of the trading company, together with the degree of trust they felt could be placed in their business leaders. Naturally, loans still needed to be secured even though trading companies – as valued customers – were allowed to borrow on easier terms than many other customers. However, owing to the often intimate relationship between bank managers and their clients, this was frequently done in a rather 'informal' fashion. Given that the trading companies were valued customers and that the loss of one large client could destroy economies of scale in operations at certain branches, banks were prepared to be flexible in order to avoid liquidations.

### *De Javasche Bank and the Outbreak of the First World War*

The decade before 1914 had shown the profitability of participating in the cultivation and export of agricultural products. At the same time the example of 'Djatiroto' had shown the inherent dangers, in particular the extreme dependence on external circumstances such as climatic conditions and erratic price movements. These factors proved difficult to foresee and impossible to influence. The outbreak of World War I in August 1914 posed a similar threat to the colony's economic development. A sense of nervous anticipation and growing insecurity mounted throughout the summer of 1914, as it became apparent that political tensions in Europe were building. With the assassination of Archduke Franz Ferdinand – the heir to the Austrian throne – and his wife in Sarajevo on 28 June 1914 the political situation spun out of control.

On 28 July 1914, after escalating political tensions had resulted in mobilization efforts, ultimatums and scarcely concealed war threats, Austria-Hungary declared war on Serbia. An elaborate system of alliances ensured that this fateful decision set off a chain reaction which put Germany and Austria-Hungary against Great Britain, France and Russia. Other countries joined and in less than two weeks the European continent had become the stage of a military conflict of unknown proportions. The Netherlands remained neutral until the end of the war in 1918. The country was thus spared active participation in the horrendous warfare of these years. However, the side-effects of the conflict could not be avoided.

The first forebodings of trouble were cabled to DJB in Batavia on 30 July 1914.[31] At this point the full-scale effects of the Austro-Hungarian war declaration had not yet materialized. Nevertheless, DJB's office in the Netherlands spoke off utter panic ruling Amsterdam. Additional press telegrams confirmed the chaotic situation throughout the country. To the Dutch public a European war had apparently become inevitable. As a result, food supplies were being hoarded massively and bank offices were overrun in an attempt to obtain as much cash as possible. In Amsterdam people spent the night on reclining chairs in front of the Dutch central bank: De Nederlandsche Bank (DNB). The agency of DNB in Maastricht had to call in police assistance to control the agitated crowd and restore order. For safety reasons numbered tickets were distributed the following day to prevent people from jumping the queue. In addition, only five persons at a time were admitted inside the building.

DNB was not the only one confronted with people fearing an economic breakdown and anxious about their life's savings. Huge cash withdrawals were made all over the country, primarily in coins as banknotes were no longer valued. The Rijkspostspaarbank (Government Savings Bank) accustomed to serving an average of 800 clients approximately *f* 200,000 in cash per day, saw itself confronted on 1 August 1914 with over 13,000 people withdrawing *f* 4,800,000. Meanwhile, the Amsterdam stock exchange had been forced to close its doors on 29 July 1914. The price quotations had plummeted after shares started to be traded far below their real value. This alarming flight of capital threatened to paralyse not only the financial market but the entire economy. All financial trade was thereupon suspended until further notice.[32] Another indication of the deteriorating events was the decision made by insurers to cancel any coverage to war risk forthwith. These incidents pointed to a serious crisis of confidence. To prevent a complete economic breakdown firm action was urgently needed.

DNB, in close cooperation with the government and the commercial banks, responded to the pending economic crisis with the swift implementation of countermeasures. On 1 August 1914 Batavia was informed

[31] This paragraph is based on DJB Board meetings and DJB reports which assessed the economic and financial situation in the Netherlands Indies right after the outbreak of the First World War (BI/DJB 97 No. 19: 166–188; No. 20: 189–202, 207–218; No. 24: 252–259; No. 32: 310–321; BI/DJB 98 No. 51: 453–467). See also Van Dijk (2007: Ch. VI.).

[32] This provision remained effective for more than half a year. It would take until 9 February 1915, before the stock exchange was finally reopened upon the instigation of the Minister of Finance.

that the government had agreed to reduce the obligatory specie coverage (i.e. the amount of gold and/or silver in relation to the amount of banknotes in circulation) of the Dutch central bank from 40% to 20%. In addition, the bank's statutory obligation to exchange banknotes for specie upon request was cancelled. These and other measures greatly enhanced the financial leverage of DNB and put the financial sector on a more solid footing. Of paramount importance was the establishment of a support syndicate (*Steunsyndicaat*) on 29 July 1914 in anticipation of a possible credit shortfall. DNB contributed generously to this relief fund, promising to guarantee emergency loans against collateral to the astonishing amount of *f* 200,000,000. This gesture restored business confidence to more acceptable levels and elevated DNB to the position of leading economic and financial player. In the words of G. Vissering, who had left DJB in 1912 to become President of DNB: "Suddenly, we had become the absolutely central institution, around which everything concentrated."[33]

E.A. Zeilinga – Vissering's successor at DJB – strongly approved of the energetic steps taken by DNB and clearly favoured a similar approach for the Netherlands Indies. In a meeting with the Director of Finance[34] on Sunday 2 August 1914, he encouraged powerful government intervention to prevent the economic system from collapsing in case of a full-scale European war. Zeilinga proposed several precautionary measures to improve DJB's financial leverage and increase its field of operations. It was imperative that DJB be given the opportunity to act as a true lender of last resort. By enabling undisturbed continuation of business, consumer confidence would remain unimpaired and irrational behaviour or outright panic could be avoided. In other words, it was of crucial importance that no brakes should be applied to the economy. All efforts should be aimed at stimulating economic forces.

Zeilinga argued his case by analyzing the colony's current economic position. He assumed that the anticipated proliferation of the military conflict in Europe would isolate the Netherlands Indies. Consequently the

[33] Cited in De Vries (1989a: 61). See also Von der Dunk (1988: 348–350), De Vries (1989a: 61–70), Mansvelt (1924: II 432–433), *Gedenkboek NHM* (1924: 92–96).

[34] Within the colonial administration there were seven civil and two military departments under the supervision and command of the Governor-General. The civil departments were managed by Directors and consisted of the Departments of Law (1), Home (2), Finance (3), Public Instruction and Public Works (4), Agriculture, Industry and Commerce (5), Civil Public Works (6) and Government Works (7). The two departments of the army and the navy were headed by their commanders-in-chief. They were appointed by the crown. The civil heads were appointed by the Governor-General (Carpentier Alting 1914: 7).

colony would have to depend on its own resources. The process of readjustment would doubtless be difficult and demanding of DJB. Zeilinga pointed out potential difficulties.

> It is to be expected that shipping will soon be completely disrupted. The result will be a virtual stop to exports and in order to procure the means to continue agricultural enterprise people will have to call in the help of financial institutions, who in turn will have to appeal to De Javasche Bank. The sugar harvest is in full progress, the harvesting of coffee, tea and rice also demands regular expenditure [...] while the already harvested products need to be paid for upon delivery.[35]

He stressed that the suspension of such payments could result in a general collapse, because it would effectively halt agricultural exports. Consequently, many thousands of workers would be made redundant which could lead to trouble in Java's interior. There were other problems as well.

> Furthermore, it is likely that the public will be overcome by fear and start closing their credit accounts at the banks. In order to satisfy those requests the majority of the banks will have to call in the help of De Javasche Bank. A run on the savings banks, even the Rijkspostspaarbank, is very likely and the only way to end this as soon as possible is by satisfying all requests, for which purpose however De Javasche Bank will necessarily have to help out. Therefore, it is of the utmost importance that De Javasche Bank will be able to satisfy all credit requests.[36]

DJB could dispose of *f* 9,000,000 for emergency support, but a significant increase of DJB's financial strength was of vital importance. Such an expansion of leverage would also serve the interest of the colonial administration, as Zeilinga cleverly remarked.

> The government itself [...] is likewise dependent for a substantial part on the support of De Javasche Bank, now that significantly less public revenue will probably flow as a result of the general disturbance.[37]

Zeilinga proposed a number of measures which were readily accepted by the Director of Finance and presented to Governor-General Idenburg on Monday morning 3 August 1914. It was decided that DJB's obligatory specie coverage would be reduced, like DNB two days before, from 40% to 20%. The narrow definition of suitable collateral as prescribed in DJB's

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35 BI/DJB 97 No. 19: 166.
36 BI/DJB 97 No. 19: 167.
37 BI/DJB 97 No. 19: 167.

statutes was altered to facilitate the acceptance of credit requests. Finally, the banknotes issued by DJB were declared legal tender to prevent them from being refused as payment. Idenburg offered to discharge DJB of its legal obligation to exchange banknotes for specie, but this was not considered necessary and politely declined. Upon his departure Zeilinga gratefully acknowledged the cooperation of the government and assured Idenburg that DJB would respond positively to justified credit requests, in particular regarding agricultural exports (De Bree 1928: II 441–442).

DJB's financial leverage now stood at approximately *f* 150,000,000 and was immediately put to the test on Tuesday 4 August 1914. Before opening hours every agent of DJB was instructed to stay calm and be obliging towards all clients in an attempt to quiet the excited atmosphere. All running credit arrangements should be observed, but new requests for credit were to be scrutinized by the head office before approval. Representatives of businesses in desperate need of credit were received at the Batavia head office from early morning till late in the evening that day. All were asked to disclose the financial situation of their company after which credit possibilities were discussed. The branch offices later reported the same parade of business people anxiously seeking financial support.

In his memoirs E. Helfferich, a prominent German businessman[38] in charge of the Straits und Sunda Syndicat – an investment company with numerous interests in export agriculture – vividly recalled the extreme circumstances of those days. He received a telegram from Hamburg at the beginning of August with the short and ominous message: "Don't rely upon remittance from here." However, hundreds of thousands of guilders were needed before the recently planted crops could be harvested. The very survival of the company depended on obtaining a loan to assure continuation of activities. After calculating the syndicate's capital requirements for the next six months, Helfferich went to DJB and explained the difficult financial position in a conversation with Zeilinga, whom he knew personally. A few hours later he was told that DJB had decided to grant the Straits und Sunda Syndicat a credit of *f* 300,000. In confidence Zeilinga had added: "And when that has been used up, we will see" (*Und wenn das alle ist, werden wir weiter sehen*) (Helfferich 2000: 270; Hiemstra 1998: 75–77, 87).

In the meantime people became increasingly restless. Fear of an economic breakdown generated an extreme demand for cash at the banks

[38] See the following publication for (auto)biographical information: Helfferich (2000), Kaminski (1999), Siebert (2002: 106–132).

throughout the day. Shops were overcrowded and everywhere people could be seen carrying home provisions of all sorts. These signs of panic grew on 5 August 1914 after retail traders started to refuse banknotes as payment and the NHM turned down customers wishing to exchange paper money for coins.[39] The banks were completely overrun with people trying to exchange their banknotes for silver coins. The chaotic events reported at the cash counters repeated themselves the next day and an aggressive crowd sometimes needed to be controlled by the police. The Surabaya agent of DJB reported that people were behaving like madmen. At the Soerabaiasche Spaarbank people were pushed through the windows and the office of the Soerabaiasche Incasso-, Spaar- en Hulpbank was literally "besieged by a fighting mob". It was as if the whole world hurled itself at the banks to withdraw credit (*Alle Welt stürzte sich auf die Banken, um Guthaben abzuheben.*) (Helfferich 2000: 269).

Amidst this anarchy and chaos eyes turned to DJB for an adequate response. Zeilinga managed to calm things down by making sure that every withdrawal was seen to without hesitation. To assuage the hoarding of silver money somewhat, he employed a simple trick by ordering that every coin be counted one by one when paying out. Furthermore, the

[39] DJB had counted on the NHM to put its considerable financial weight behind the colonial economy by conducting business as usual. In a separate meeting on 2 August 1914 it was agreed that the NHM would honour existing credit arrangements and assist its business relations provided they were creditworthy. However, the NHM interpreted the agreement differently and refused to pay out any silver to its customers. Given its stature and reputation, this decision contributed significantly to the run on the banks. The NHM was also extremely reluctant to extend credit and attempted to refer all credit requests to DJB. Asked by Governor-General Idenburg, DJB would report on these and other grievances on 11 August 1914 and concluded harshly that the NHM, driven by fear and self-interest, had done nothing in the first week of the crisis to assist those in need of credit. See also Potting (1997: 151–154, 179–180) regarding this matter.

It should be noted that the relationship between DJB and the NHM had been difficult ever since 1891 when DJB opened a representative office in Amsterdam and obtained permission to trade in foreign bills of exchange. This strengthened the position of DJB vis-à-vis the NHM and intensified the competition between the two. In 1907 the simmering conflict came to a head when DJB proposed a change of statutes in order to expand its trade in bills of exchange. The NHM reacted furiously and Zeilinga – Director of DJB at the time – was told that the NHM would obstruct DJB as much as possible. The NHM also distrusted DJB whose specie reserves were not disclosed and could prove inadequate in case of calamitous events. In 1911 the NHM therefore decided to have its own specie reserves in Batavia should circumstances prevent DJB from replenishing its stock. Before 1914 at least *f* 7,000,000 in silver and gold coins were shipped from the Netherlands to help defend the widespread business interests of the NHM. Oddly enough, the NHM chose to guard this supply at a time it should have been put to better use (De Vries 1989: 22–24).

The difficult relationship between DJB and NHM is also recounted in a publication of the NHM (Amsterdam, 1914) entitled *Samenvatting van de briefwisseling en geschriften in zake de Javasche Bank in de jaren 1907–1912*.

names and addresses of Chinese and Arab recipients were registered separately and handed over to the police in order to prevent money changers from taking advantage of the turmoil. Chinese and Arab money changers had taken the opportunity to trade coins for banknotes at a considerable premium. These banknotes were immediately exchanged for coins at the offices of DJB. This profitable scheme would naturally repeat itself as long as panic continued and people were willing to pay the unofficial higher rate. The fact that every Chinese and/or Arab was thus branded a potential profiteer was obviously considered irrelevant. What counted was the alleged positive result.

The panic slowly subsided and on Monday 10 August the situation had become more or less normal. The course of events of that extraordinary week were illustrated by DJB's Surabaya agent. He neatly summarized what had happened at his office from Monday till Friday, showing the enormous strain put on himself and his employees (see Table 5.6). The extreme demand for cash had drained the agency's money reserves so fast the agent had to raise the alarm on Tuesday 5 August 1914. Since it would take too long to reach Surabaya from Batavia, the Semarang agency was given instruction by phone to immediately send *f* 1,400,000 by car under armed escort. This sufficed one day only and the agent had to repeat his request on Wednesday. Again, *f* 1,400,000 were sent from Semarang which arrived safely by express train in Surabaya on 7 August 1914.

Table 5.6 shows that close to *f* 9,000,000 had to be paid out in Surabaya in the five days under consideration. However, by persuading people to accept both banknotes and coins, only 35% of these withdrawals had been made

Table 5.6. Money withdrawals at the Surabaya agency of DJB, 4–8 August 1914.

| | Banknotes (*f*) | Specie[1] (*f*) | Total (*f*) |
|---|---|---|---|
| 4–8–1914 | 1,360,000 | 782,000 | 2,142,000 |
| 5–8–1914 | 2,802,000 | 560,000 | 3,362,000 |
| 6–8–1914 | 1,000,000 | 660,000 | 1,660,000 |
| 7–8–1914 | 200,000 | 700,000 | 900,000 |
| 8–8–1914 | 380,000 | 430,000 | 810,000 |
| | 5,742,000 | 3,132,000 | 8,874,000 |

[1] in silver, with the exception of *f* 42,800 paid in gold coins.
Source: BI/DJB 97 No. 20: 198.

in silver. The demand for cash came from clients such as the commercial banks, trading companies and "countless administrators of sugar factories, coffee enterprises etc. etc.", and guaranteed the undisturbed continuation of business.[40] It was estimated that of the total amount withdrawn only *f* 400,000 to *f* 500,000 (i.e. 12% to 15%) had been intended for private purposes. The hectic situation at the counter seemed to have demanded a disproportionate amount of time and effort. But satisfying the needs of the general public formed an integral part of DJB's strategy to quell the existing unrest and restore people's confidence as fast as possible.

After the agencies' first reports had been received in Batavia, a preliminary balance was made up and discussed on 12 August 1914. In a week time DJB had paid out approximately *f* 12,000,000 in silver[41] and *f* 10,000,000 in banknotes. (The latter amount shows that the other agencies had been less successful in persuading clients to accept a combination of banknotes and coins when withdrawing their money.) The amount of money deposited in private accounts had decreased by the relatively small sum of *f* 1,300,000 which was taken as an indication that the majority of transfers had served business purposes. Emergency credits had been extended to the amount of *f* 18,000,000 which left DJB with financial means of *f* 132,000,000. This proved more than sufficient since total relief support would reach a maximum of *f* 30,000,000 towards the end of September 1914. Zeilinga's analysis as well as his approach to the perceived problems had been on target. DJB's strenuous activity throughout the first week successfully stopped the panic amongst the population, and managed to keep the economy of the Netherlands Indies in gear (De Bree 1928: II 443).

### *The Colonial Economy after 1914*

Fear of a total economic breakdown disappeared as suddenly as it had surfaced. Life resumed its normal course with foodstuffs arriving without interruption and shipping of agricultural produce relatively unhampered.

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[40] The demand for cash was even higher due to a combination of circumstances. As the agent pointed out, the fasting month had just begun at which time the local population required more money to pay for food, clothes and festivities. Since the indigenous population had no use for banknotes of relatively large denominations many administrators had visited DJB to exchange paper money for coins. Being strapped for cash, companies had also closed more business deals. Land leases as well as advances on agricultural produce were thus concluded and these had to be paid in cash.

[41] Java accounted for about *f* 5,000,000, divided between Batavia (± *f* 1,000,000), Semarang (± *f* 850,000) and Surabaya (*f* 3,132,000). *f* 7,000,000 had been withdrawn in the Outer Provinces, above all on the East coast of Sumatra where agricultural enterprise (tobacco, rubber and coffee plantations) was concentrated.

After the hoarding frenzy had subsided, prices of provisions – especially rice – gradually returned to more reasonable levels. The banks abandoned their wary attitude and money was redeposited by account holders.

After an initial sharp decline, the prices paid for plantation exports started to rise significantly. Sugar prices increased 80% on average in response to soaring English demand. The import business profited from improved market prices as well which partly made up for the fact that turnover had been reduced by two-thirds. With most import houses stocked to the roof the sector seemed capable of surviving the present difficulties. (Carpentier Alting 1928: 59–62; Helfferich 1916: 172–173).

For all the sabre rattling coming from Europe, the economic situation of the Netherlands Indies did not appear particularly worrisome. In a memorandum to Governor-General Idenburg on 7 September 1914 Zeilinga wrote that no serious stagnation in trade had occurred. In general, products could still be marketed without real difficulties. He did warn the trading community, whether in import or export, that they should not ignore the fact that new markets needed to be explored. Soon, the effects of the war would make it impossible to rely on established trade routes and supply lines. "With the changing tide, a new course will have to be set."[42] The trading business did not have to worry, provided it actively sought alternative markets in Asia and America and, in the case of exports, would serve these markets directly from the Netherlands Indies. Zeilinga reassured the Governor-General that the colony would survive the severed economic link with the Netherlands and could benefit from an independent stance. "In time it will be shown that the Indies can take care of itself and that the Indies can do without the mother country with greater ease than the mother country without the colonies."[43]

Before long, Zeilinga's assessment was confirmed. The period 1914–1918 saw an important realignment of the export and import trade with Japan and the United States as the main beneficiaries (see Table 5.7). Import provenances and export destinations shifted as shown by the opening of the Java-Pacific Line in 1915 and the Java Line of the Japanese shipping firm Osaka Shôsen Kaisha in 1916. The colonial government claimed that "commercial traffic had left long-trodden paths, sought and obtained fresh markets, and loosened ties that had existed for many years" (Carpentier Alting 1928: 65). The trade link between the Netherlands Indies and Europe had indeed been marginalized. After 1918 the trading

[42] BI/DJB 97 No. 24: 258.
[43] BI/DJB 97 No. 24: 259.

Table 5.7. Geographical composition of the foreign trade of the Netherlands Indies, 1914–1922 (in millions of guilders).

| | Imports | | | | | | Exports | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1914 | | 1918 | | 1922 | | 1914 | | 1918 | | 1922 | |
| | *f* | % | *f* | % | *f* | % | *f* | % | *f* | % | *f* | % |
| Europe | 233 | (61) | 96 | (18) | 330 | (48) | 308 | (48) | 67 | (10) | 319 | (28) |
| Netherlands | 124 | (32) | 11 | (2) | 156 | (23) | 149 | (23) | 3 | (-) | 181 | (16) |
| Asia | 127 | (33) | 339 | (64) | 276 | (40) | 261 | (41) | 420 | (63) | 535 | (47) |
| Singapore[1] | 73 | (19) | 156 | (29) | 113 | (16) | 129 | (20) | 184 | (27) | 242 | (21) |
| Japan | 6 | (2) | 114 | (22) | 57 | (8) | 19 | (3) | 78 | (12) | 115 | (10) |
| USA | 10 | (3) | 62 | (12) | 32 | (5) | 16 | (3) | 111 | (17) | 96 | (8) |
| Total | 383 | | 529 | | 691 | | 636 | | 672 | | 1,136 | |

[1] including peninsular Malaysia
Source: Carpentier Alting (1928: 102–103).

mechanism partially returned to its old parameters. Europe became a prominent trading partner again, but the gains made by Asia and the United States were not lost and the economy was less exclusively geared towards the old continent.[44]

The neglected Japanese economic presence in the colony became visible during the exceptional economic circumstances of the period 1914–1918.[45] The first Japanese probably arrived as early as 1867 when three variety artists set foot ashore in Batavia. Japan's economic involvement in the colony followed shortly after. In 1896 a Treaty on Commerce and Shipping was concluded with Japan as an outcome of which Japanese migrants were given European status in 1899. However, the number of Japanese settling in the Netherlands Indies remained limited when compared to other countries in Southeast Asia, such as the Philippines and the Straits Settlements.

Two factors seem to have contributed to this difference. First, the European status denied Japanese the possibility from working as coolies which precluded large-scale labour migration. Second, the European status of the Japanese was considered an anomaly within colonial society

[44] See Booth (1998: 208–211), Carpentier Alting (1928: 84–95), Dick et al. (2002: 128–130), Korthals Altes (1991: 86–90, 99–103).

[45] The following section is based upon the research conducted by P. Post. He has discussed the topic of Japanese economic activity in several studies including his unpublished dissertation entitled: *Japanse bedrijvigheid in Indonesië 1868–1942. Structurele elementen van Japan's economische expansie in Zuidoost Azië* (Post 1991). The basic arguments of his research can be found in Post 1993 and 1996.

and gave rise to many problems with Dutch colonial officials. Japanese migrants were often maltreated, put in jail or refused an entry permit as officials believed them to be Chinese unlawfully demanding 'European' treatment. As a result the Japanese population climbed from less than 500 to 1500 between 1890 and 1910. The improvement of economic conditions around 1910 seems to have attracted more Japanese to the colony as a result of which their number rose to 4000 in 1916. After 1924 the population would rise again to approximately 6500 during the 1930s.

In order to protect and further their business interests Japanese entrepreneurs took a twofold approach. So-called Nihonjinkai (Associations of Japanese) were founded to provide mutual support. These associations served cultural, recreative and business purposes.[46] Although their job was partly taken over by the establishment of a Japanese consulate in Batavia in 1909, they remained active.[47] The Japanese also established close ties with the Chinese community in the Netherlands Indies. Upon their arrival Japanese merchants would live in Chinese quarters, lodge in Chinese hotels, eat Chinese food and try to establish contact with Chinese business leaders. (The latter were often connected to the large Chinese business community in Japan which had developed a strong position in the export trade of Japan towards the end of the nineteenth century.) Their Chinese connections learned the Japanese about Dutch colonial law, regional social and economic conditions, local production and demand. The economic cooperation between Chinese and Japanese would ultimately result in the establishment of Chinese-Japanese trade associations in Batavia (1913) and Surabaya (1914).[48]

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[46] The Nihonjinkai were responsible for the maintenance of Japanese cemeteries as well as the funerals of destitute members of the Japanese community. They helped newcomers to find their way around and tried to manage conflicts between Japanese migrants and colonial officials.

[47] The first Nihonjinkai had been established in 1897 in Medan by two owners of *Toko Jepang* (Japanese retail shops). Later they could also be found in Batavia, Semarang, Surabaya and Makassar.

[48] The relations between Chinese and Japanese did suffer occasionally. Chinese anti-Japanese boycotts severely hampered the import and distribution of Japanese goods at various times. Their effects were however not as strong as elsewhere in Southeast Asia. The Chinese communities in the Netherlands Indies were highly differentiated which precluded the existence of a general anti-Japanese feeling. Powerful Chinese businessmen, like Oei Tiong Ham, with large interests in Japanese business also exerted their influence to subdue anti-Japanese feelings. In 1915 and 1926/27, following political incidents between China and Japan, large-scale and very violent anti-Japanese boycotts did break out, not only in the Indonesian archipelago, but also in Singapore, Siam and the Malaysian peninsula. Chinese were warned not to do any kind of business with Japanese and those that did suffered serious consequences (Fukuda Shozo 1995: 230–246, especially 231–232, 235–236; Post 1991: 162–167).

At the outbreak of the First World War 37 Japanese firms – mostly medium-sized trading companies handling a wide variety of Japanese goods – had registered in the Netherlands Indies. Most Japanese products were imported through Chinese businesses and distributed by means of Chinese networks. The war in Europe presented Japan with the opportunity to extend its commercial networks in Southeast Asia. In the Netherlands Indies large Japanese banks and trading companies, such as the Taiwan Bank, the Yokohama Specie Bank, Mitsui Bussan and Gosho, started to appear on the scene. Existing trading firms – e.g. Ogawa Yôkô, Nanyô Shôkai and Chôya & Co. – rapidly expanded their network of branches and agents. Their example was followed by the establishment of hundreds of small Japanese shops (*Toko Jepang*). The reliance on Chinese networks was slowly reduced. Chinese business links remained important, but would from now on be complemented by Japanese business connections who focused more on their own trade associations and institutions.

The successful redirection of commercial activity did not only benefit the Japanese. As mentioned before, it coincided with a favourable price development which enabled traders to stay in business. The importers had little to complaint. The (anticipated) dearth caused prices to rise substantially and the resulting larger profits more than compensated the smaller turnover. Old stocks continued to fetch good prices and with occasional shipments arriving from Europe the financial results remained satisfactory. Owing to increased demand export firms and plantation companies also benefited greatly from extraordinary prices, and speculation – especially in sugar – was rife. The increasing lack of sufficient cargo space came to constitute the bottleneck of trade. After 1917 large stocks started to accumulate in godowns all over the archipelago and forced sales seriously depressed the market.

Importers and exporters enjoyed a short period of unprecedented prosperity after the end of the war (see Table 5.8 and Figure 5.3). As a result of pent-up demand commodities produced were sold at fabulous prices. The quantities exported were unusually large due to the accumulated stocks of the preceding years. The windfall profits accruing from these exceptional circumstances lasted till the end of 1920 when the economy resumed a more conventional course. A fall in prices set in which continued throughout 1921, resulting in big losses for the export traders whose stocks declined in value, and the speculators who had signed forward contracts at high rates. Importers too saw their profits dwindle as they had flooded the market with goods in an attempt to regain their former

Table 5.8. Imports and exports of Java and Madura, 1913–1930: values (at constant prices x *f* 1,000) and index numbers (1913=100).

| | Imports | | | | Exports | | | |
|---|---|---|---|---|---|---|---|---|
| | Value | | Value at constant prices[1] | | Value | | Value at constant prices[1] | |
| 1913 | 325,664 | 100 | 325,664 | 100 | 351,706 | 100 | 351,706 | 100 |
| 1914 | 288,532 | 89 | 280,128 | 86 | 354,957 | 101 | 325,649 | 93 |
| 1915 | 276,787 | 85 | 240,684 | 74 | 439,884 | 125 | 311,974 | 89 |
| 1916 | 303,898 | 93 | 197,336 | 61 | 514,784 | 146 | 338,674 | 96 |
| 1917 | 330,681 | 102 | 163,004 | 50 | 457,749 | 130 | 329,316 | 94 |
| 1918 | 392,031 | 120 | 153,137 | 47 | 357,180 | 102 | 324,709 | 92 |
| 1919 | 521,465 | 160 | 189,620 | 58 | 1,418,525 | 403 | 472,842 | 134 |
| 1920 | 920,828 | 283 | 303,904 | 93 | 1,507,731 | 429 | 299,748 | 85 |
| 1921 | 902,800 | 277 | 498,785 | 153 | 663,439 | 189 | 330,069 | 94 |
| 1922 | 557,519 | 171 | 306,329 | 94 | 522,610 | 149 | 296,938 | 84 |
| 1923 | 457,721 | 141 | 252,885 | 78 | 825,879 | 235 | 348,472 | 99 |
| 1924 | 484,067 | 149 | 270,428 | 83 | 910,290 | 259 | 410,041 | 117 |
| 1925 | 548,222 | 168 | 316,891 | 97 | 845,867 | 241 | 299,953 | 85 |
| 1926 | 561,242 | 172 | 344,320 | 106 | 750,631 | 213 | 322,159 | 92 |
| 1927 | 574,969 | 177 | 366,222 | 112 | 813,923 | 231 | 402,932 | 115 |
| 1928 | 656,628 | 202 | 431,992 | 133 | 846,896 | 241 | 568,387 | 162 |
| 1929 | 717,784 | 220 | 475,354 | 146 | 714,916 | 203 | 525,674 | 149 |
| 1930 | 568,327 | 175 | 400,230 | 123 | 572,407 | 163 | 629,019 | 179 |

[1] deflated import and export values
Source: Korthals Altes (1991: 46–56, 66–76), Korthals Altes (1994: 159–166).

position. When big orders arrived from Europe late in 1919 and early in 1920 supplies rose to an alarming extent. Stocks were cleared at any cost and with a heavily saturated market, prices started to come down. Many import firms were forced into liquidation or obliged to reorganize their affairs.

The first signs of recovery did not manifest themselves before 1922 and it would take some years before the process of readjustment had been completed. The export sector was the first to escape the general malaise and regain high profitability thanks to the fact that world demand continued to exceed supply with regard to many of the products the colony had to offer (Dick et al. 2002: 125). This is illustrated by the following remark:

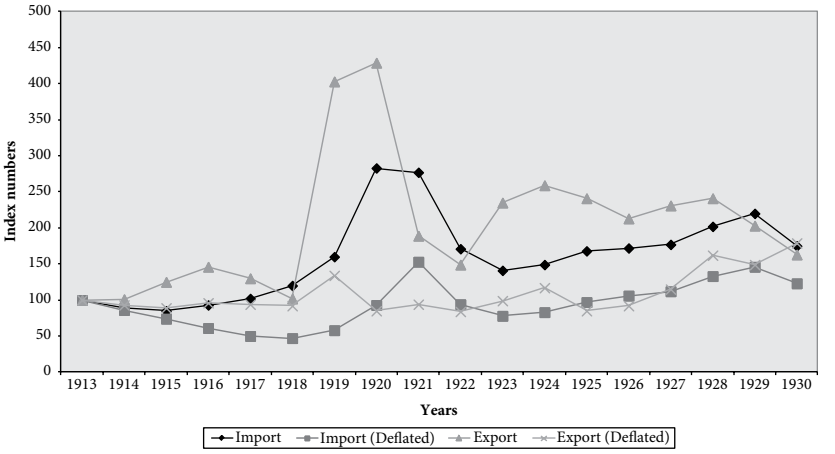



Fig. 5.3. Index numbers of imports and exports, Java and Madura 1913–1930 (1913=100).
Source: Table 5.8

The colony's import and export statistics attest to the extreme market volatility resulting from the First World War. Taking the data at current prices, the Netherlands Indies appeared not to suffer too much from the shocks to its economic system. The economy continued to operate at a much higher level compared with the situation before the outbreak of the war. However, a different picture arises when the price inflation is taken into account (Dick et al. 2002: 148). After correction for price distortions the deflated import and export data point to a stagnant economy which only managed to surpass the pre-war level in the second half of the 1920s. The brisk economic development of the colony achieved before 1914 was clearly halted by the outbreak of the First World War for at least a decade (Carpentier Alting 1928: 95–101).

> Yet the economic position of the Netherlands East Indies has no more regained complete equilibrium, even in 1925, than has the rest of the world. The many gaps which the War made in world-stocks are still unfilled, and this condition repeatedly causes violent fluctuations in price; the consumption of some products has increased, whereas their production has been partially suspended for some years or has not been normally extended owing to the War. Hence such commodities – we may here refer to sugar, rubber, and tea – are in a particularly favourable position at the present time.[49]

This assertion was certainly appropriate in 1925 when prices for many primary products were exceptionally high. Exporters were thriving and many trading companies were reaping the profit from the highly favourable market conditions (see Table 5.1 and 5.2). This greatly stimulated commercial activity. However, world price developments started to turn against

[49] Quoted in Carpentier Alting (1928: 77).

the economy of the Netherlands Indies. Export prices actually lagged behind import prices and started to decline in the second half of the decade. As a result, between 1921 and 1930 the commodity terms of trade of the economy were more and more affected (see the deflated lines in Figure 5.3). Ultimately, the deterioration in terms of trade was of great consequence for the export producers in the archipelago since they had to supply ever larger quantities in order to pocket the same revenue. The colony's exporters were unable to influence the price level on the world market. Consequently, the only sensible reaction to price changes was to seek compensation for the fall in unit prices by raising the volume of output (Dick et al. 2002: 123–125; Arnoldus 1991: 32).

Notwithstanding the dependence on exogenous factors the 1920s formed the heyday of the colonial trading system, especially with regard to exports. Economic prosperity would give rise to many instances of financial mismanagement. Frequently, the necessary capital to finance business transactions was too readily given, even when these investments were hardly warranted. Driven by unrelenting competition and unable to resist the tempting opportunities for profit during the trade boom of the 1920s, banks often supplied capital on conditions that were far from prudent.

This situation lasted until the increase in the colony's productive capacity could no longer offset the downward price movement for many of its export products at the end of the 1920s. At that point the export bubble burst, shattering the intricate financial arrangements that had made it feasible in the first place. Attempting to safeguard their substantial interests, the banks showed a willingness to support trading companies that experienced serious financial crises. They intervened directly in the affairs of their clients on a number of occasions, and/or became involved in reconstructions or liquidations of collapsing trading companies. Some banks spent the remainder of the 1930s and early 1940s trying to liquidate inherited assets in order to see some return on their investment.

In the following pages the deep financial involvement of DJB with the Kwik Hoo Tong Handelmaatschappij (KHT) – a Chinese sugar trading company – will serve as an example. DJB's special interest in this particular client dated from the 1920s when the firm neglected to settle loans due for payment. When KHT also failed to reduce its substantial overdraft, DJB started to question the company's creditworthiness. However, it took years to discover that KHT's financial position was fundamentally flawed and out of control. Despite direct intervention of DJB the company was forced to default on its payments and ultimately declared bankrupt. The following section examines in detail the case of KHT, focusing above all on

the company's complicated financial relationship with DJB which lasted for about forty years and exemplifies the issues described earlier while highlighting the functioning of Dutch-Chinese commercial relations.

### *The Kwik Hoo Tong Handelmaatschappij: A Prominent Chinese in Sugar*

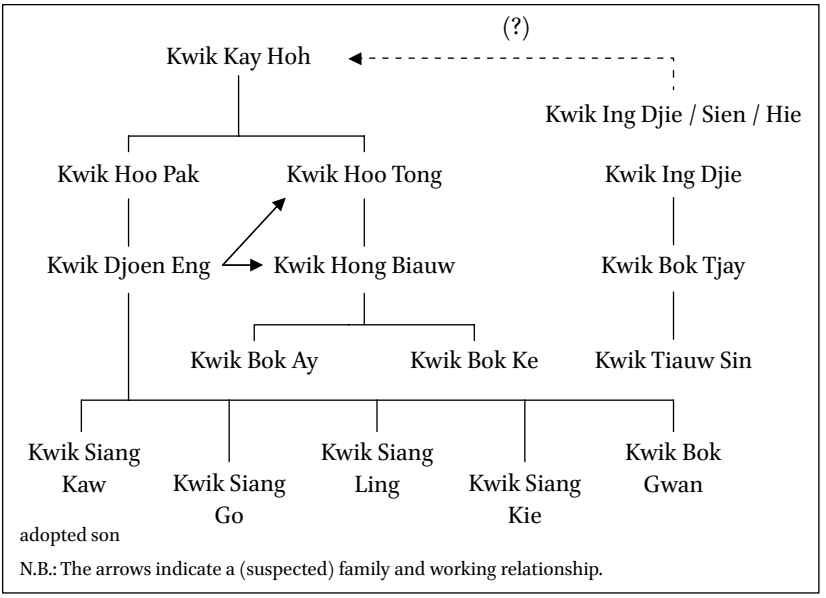
On Tuesday 17 July 1894 five Chinese businessmen entered the office of public notary Houthuysen in Semarang, where they were awaited by B.V. Houthuysen himself. Two clerks, witnesses to the official procedure about to take place, were present as well. After the exchange of courtesies the visitors were invited to sit, whereupon a draft document was read aloud in Malay to make sure that its contents were fully understood. When no questions were asked, the document was signed forthwith by all those present. The legal requirements for the establishment of a new trading firm had thus been met after which the meeting quietly broke up. The deed of partnership was subsequently submitted to the Governor-General's office in Batavia, where it was approved on 18 September 1894. Six days later, on 24 September 1894, the new firm was officially registered at the Council of Justice in Semarang. The company's articles of association were finally published – as demanded by law – in *De Javasche Courant* of 19 October 1894.

These articles show, that the limited liability company Kwik Hoo Tong Handelmaatschappij (Trading Company Kwik Hoo Tong, Ltd) – operating under the brand name *Gim Mo Ho* or short *Gim Mo*[50] – was formally established on 1 June 1894 in Solo, Central Java, with an issued share capital of *f* 200,000. The main purpose of the company was: "the trade in sugar, tea, rice, and other articles to be designated by a majority of shareholders". The company was to be dissolved automatically after eighty years, on 31 May 1974. This period of time suggests the commitment of the initial shareholders to invest on a long-term basis. The five signatories of KHT's memorandum of association represented the company's sole shareholders. They

[50] The words *Gim Mo* stand for a 'prosperous' or 'bright future'. The word *Ho* means 'shop'. The brand name *Gim Mo Ho* translates as 'shop with a prosperous/bright future'. By choosing this name, the founders indicated that they were confident in the success of their venture and probably hoped to instil a degree of trust in their enterprise among potential customers. It would take until 1905 before the name of the brand would actually appear in the name of the company. On 29 December 1905 KHT was officially renamed "Kwik Hoo Tong Handel Maatschappij (merk *Gim Mo*)" (*Handboek Cultuur- en Handelsondernemingen* 1897: 525; *De Javasche Courant*, 23-02-1906). See Vleming (1926: 25–28) for the Chinese practice of giving enterprises and brands a well-sounding name.

were known to notary Houthuysen as merchants by the name of Kwik Hong Biauw, Kwik Djoen Eng, Kwik Ing Djie, Kwik Ing Sien and Kwik Ing Hie[51] which made KHT a family enterprise.[52] They had an equal 20% share in KHT by investing *f* 40,000 either in cash or merchandise. Furthermore, a house – valued at *f* 12,000 and located in the Chinese quarter of Solo – was brought into the partnership by Kwik Hong Biauw (Box 5.1 and 5.2).[53]

Box 5.1. Genealogy of the Kwik family




Source: genealogy Kwik family; interview Kwee Hui Kian, 19 July 2002.

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[51] How they were related to each other remains unclear. A genealogy of the Kwik family – provided by courtesy of E. Weinberg, a far descendant of Kwik Djoen Eng – shows that Kwik Hong Biauw and Kwik Djoen Eng were cousins. The names of Kwik Ing Djie, Kwik Ing Sien and Kwik Ing Hie suggest that they might have been brothers, although the fact that they shared the same generation name (i.e. Ing) does not rule out the possibility that they were more distant relatives. See Vleming (1926: 19–24) for the intricate Chinese custom concerning personal names.

[52] A family enterprise is characterized by the fact that its management is (at least partly) in the hands of the capital-owning family. In other words, capital and management are not (completely) separated, which allows for a great variety of company structures. A family business can be defined pragmatically as an enterprise (partly) owned by a family, allowing members of this family to influence company policy through the occupation of at least one important management position (Arnoldus 2002: 203–204).

[53] This brick house with a yard was bought by Kwik Hong Biauw at a public auction on 1 May 1868 for *f* 6,040. He presumably conducted his own trading business from here.

Box 5.2. KHT's share capital and participants over time (1894–1916)

| Year | Total share capital (*f*) | Participants | Number of shares (x *f* 1,000) |
|---|---|---|---|
| 1894 | 200,000 | Kwik Hong Biauw | 40 |
| | | Kwik Djoen Eng | 40 |
| | | Kwik Ing Djie | 40 |
| | | Kwik Ing Sien | 40 |
| | | Kwik Ing Hie | 40 |
| before 1899 | 200,000 | Kwik Hong Biauw | 54 |
| | | Kwik Djoen Eng | 40 |
| | | Kwik Ing Djie | 53 |
| | | Kwik Ing Sien | 53 |
| 1899 | 200,000 | Kwik Hong Biauw | 54 |
| | | Kwik Djoen Eng | 40 |
| | | Kwik Bok Tjay | 53 |
| | | Kwik Ing Sien | 53 |
| 1903 | 200,000 | Kwik Hong Biauw | 107 |
| | | Kwik Djoen Eng | 40 |
| | | Kwik Bok Tjay | 53 |
| 1909 | 700,000 | Kwik Hong Biauw | 317 |
| | | Kwik Djoen Eng | 180 |
| | | Kwik Bok Tjay | 173 |
| | | Kwik Bok Ay | 30 |
| 1911 | 1,000,000 | Kwik Hong Biauw | 420 |
| | | Kwik Djoen Eng | 250 |
| | | Kwik Bok Tjay | 250 |
| | | Kwik Bok Ay | 50 |
| | | Kwik Bok Ke | 30 |
| 1916/17 | 4,000,000 | Kwik Djoen Eng | 3,700 |
| | | Kwik Tiauw Sin | 250 |
| | | Kwik Bok Ay | 50 |
| 1919 | 4,000,000 | Kwik Djoen Eng | 4,000 |

Source: BI/DJB 1802; *De Javasche Courant*, 19-10-1894, 11-09-1903, 08-04-1909, 19-09-1911, 05-12-1916.

The five Kwik relatives had been operating their own businesses for many years. Kwik Ing Djie ( † 1899), Kwik Ing Sien ( † 1903 ) and Kwik Ing Hie ( † before 1899) seem to have largely withdrawn from the trading scene by the time of KHT's establishment. They acted as silent partners and refrained from active participation in the business of KHT. Their financial interest in the family enterprise probably reflected an investment opportunity for surplus capital. The legal incorporation of the separated Kwik family business interests was masterminded by Kwik Ing Sien, who was rewarded a lifelong extra share of the annual profit (1/22nd part to be exact, or approximately 4.5%). His brother (?) Kwik Ing Djie was given the position of procurator with the power of attorney, which enabled him to keep a close eye on the company's nominal capital.

KHT's management was entrusted to Kwik Hong Biauw, who was appointed Director for an unlimited period of time. He operated from Solo, where he had been running his own trading business for more than 25 years. It was explicitly stated that the director would manage the partnership "without supervision of commissioners", and he probably saw little of Kwik Ing Djie who lived and worked in Boyolali, to the west of Solo, as a well-respected member of the Chinese community.[54] There was little or no control over the director's decisions; the only occasion where he could be held accountable was the annual shareholders' meeting. Kwik Hong Biauw was the undisputed head of the firm, though his position was to some extent mirrored by Kwik Djoen Eng, head of KHT's office in Yogyakarta. He had started out for himself in 1877 under the supervision of an uncle. Though formally placed under the control of the director, he was allowed to act semi-independently.

The management structure of KHT seems to have resembled the actual situation before the trading enterprises of Kwik Hong Biauw and Kwik Djoen Eng were amalgamated. This is also indicated by the fact that there was no mention of a head office. KHT's only two offices, in Solo and Yogyakarta, were officially described as *agentschappen* (agencies) although the enterprise was formally established in Solo. By joining forces Kwik Hong Biauw and Kwik Djoen Eng successfully incorporated their own businesses into a single, larger and – above all – better capitalized trading firm in response to a continued growth in trading operations

[54] Kwik Ing Djie was made ward master (*wijkmeester*) in the sub-district of Djatinam, Boyolali around 1885, and appointed Lieutenant of the Chinese in Boyolali on 18 June 1888 until his death in 1903. Being the highest Chinese officer rank in the area, this title attests to his high social status (*Regeeringsalmanak* 1885 2: 175; 1890 2: 211).

(Feldwick 1926: 599). Existing financial resources had no longer sufficed to sustain further growth and loan capital needed to guarantee future development.

The two cousins must have turned to their families for access to long term capital, as customary within the Chinese community. They had little option, since the commercial banks active in the Netherlands Indies at the time would only supply short-term funds to Chinese entrepreneurs. Fortunately, three relatives invested the large amount of *f* 120,000 into their trading firms, provided they would be turned into a limited liability company. Why was this condition set? The choice for incorporation is usually made to improve chances of raising funds for investment (Dick et al. 2002: 141). However, in this particular case the potential investors had already been found. Moreover, the partnership was established under the condition that only Chinese could participate. The shareholders, director, substitutes, as well as the appointed representatives of shareholders at the annual meeting, were all explicitly required to be of Chinese descent.

Limiting the involvement of outside investors denies the very rationale of incorporation and makes it clear that to all intents and purposes KHT was a family business and its founders preferred to keep it that way (Brown 1994: 256).[55] One of the reasons to choose this kind of legal arrangement was because of the enhanced legal protection it offered those risking their money in uncertain business ventures. Since participants could not be held liable for more than the amount they had invested, they were better shielded from creditors demanding payment, but also from potentially disruptive family feuds. (Especially with regard to complicated issues of succession which have been called the Achilles heel of the family enterprise). The validity of the protection argument becomes evident when looking at KHT's detailed articles of association. These state each participant's share in the company and carefully describe their respective rights and obligations. In addition, it was stipulated that all matters regarding the trading partnership would fall under the jurisdiction of the Council of Justice in Semarang. Future disputes would therefore be judged according

[55] The 'improper' use of incorporation was a marked feature of business life within the Netherlands as well. At the end of the nineteenth century many family companies were incorporated not to facilitate the accumulation of large capital stocks, but to escape personal liability or benefit from fiscal opportunities (Camfferman 2000: 78–81). Contemporary opinion in the Netherlands Indies was well aware of such considerations. See Vleming (1926: 70–72, 74–86) and A.D.A. Kat Angelino on Chinese intermediate trade and Chinese limited liability companies (IISG/NEHA/Collection Vleming, 17, p. 58–65).

to European commercial law which evidently was considered the best possible safeguard.

Establishing a limited liability company was also helpful in gaining access to European business networks. This was of special importance to KHT, since the production of sugar – the company's most important trading product[56] – was dominated by European entrepreneurs (Hudig Dzn 1886). Though the partners traded in a range of products, the sugar trade constituted the core of their business. There are several indications for this. First of all, it was the first product mentioned in the company's stated objectives. Second, the books were to be balanced each year on the 31 May, or "as early as the sugar of the previous *oogstjaar* (harvest year) is realized." Third, A.B. Andreas was appointed the company's representative in dealings with the government. The administrator of the sugar factory *Tjepper*, located between Solo and Yogyakarta, was most likely one of the Kwik family's sugar suppliers. He requested the Governor-General to approve the establishment of KHT and must have been a long-standing and trusted business partner.

The question remains what the five Kwik members hoped to achieve by investing such a considerable amount of their own money into the new trading firm. The provisions regarding the distribution of KHT's profits shed some light on this. These stipulated, in the first place, that 20% of annual profits would be retained and paid into a special reserve account which would have to cover any sustained loss. The account's limit was set at *f* 100,000. Together with the initial *f* 200,000 of share capital the company's total capital resources would therefore ultimately stand at *f* 300,000. This level of capitalization would have to provide KHT enough leverage to conduct its trading business. Secondly, the remaining 80% of annual profits would be given to the existing shareholders through the payment of dividend. The only exception to this rule was the statutory remittance of 1/22nd part (i.e. 4.5%) of this percentage to the *kongsie* Ki Oe Kong, situated in the hometown of the Kwik family near Amoy (Xiamen) in South China.

The annual dividend was set at 6% which meant that each shareholder would receive at least *f* 2,400, save for Kwik Ing Sien who could expect *f* 3,000 each year on account of the extra percentage awarded to him as KHT's founder. Should profits be insufficient, the shareholders were entitled to use the reserve account to make up for the difference. This dividend stabilization scheme shows that KHT's investors valued a regular

[56] BI/DJB 103 No. 22: 143.

income. Some might even have depended on this revenue. The clause also shows that the shareholders anticipated a considerable return on their investment. It can be calculated that the annual profit was expected to amount to *f* 16,500 or more, a minimum profitability rate of 8.25% on a paid-up capital of *f* 200,000. This indicates that KHT was perceived to be a viable and lucrative enterprise. Whether such optimism was warranted and financial participation in KHT proved to be worthwhile remained to be seen.

*Kwik Djoen Eng: A Life in Business*

The family name Kwik originated from the coastal district of Fujian – or Hokkien as the local population called it – in South China opposite Taiwan. The correct Mandarin pronunciation of the family name is Guo which was spelled in the Netherlands Indies as Que, Kwee or Kwik, because of the phonetic interpretation of the name when pronounced in the Hokkien dialect. When referring to KHT and/or its founders the name was uniformly spelled as Kwik. Members of this clan migrated to Java as early as the seventeenth century, and were active as merchants in Batavia and Semarang (see Chapter 4, Note 2). However, the founders of KHT were no descendants of these pioneers as they arrived in Java during the second half of the nineteenth century.

As mentioned above, Kwik Djoen Eng and Kwik Hong Biauw were identified by notary Houthuysen as traders, who had been in business for quite some time. Little is known about Kwik Hong Biauw, but Kwik Djoen Eng's career can be described in some detail.[57] Kwik Djoen Eng (Guo Chunyang in the Mandarin pronunciation) was born in 1859 in a small village in Tongan county a few kilometres north of Amoy (Xiamen) in South China.[58] As the third and youngest son of Kwik Hoo Pak, he hardly knew his father who died at an early age. Kwik Djoen Eng was given into the custody of his grandmother with whom he spent his childhood (see Box 5.1). Without an income earner the Kwik family was poor if not destitute. Economic hardship was part of daily life, affecting all family members regardless of their age. Even the youngest suffered and little Djoen Eng often had only one meal a day and sometimes not even that. Everyone had to contribute

[57] Man-Houng Lin (2001) describes his career on the basis of Japanese and Taiwanese sources.

[58] Contemporaries interpreted the name of the village as *Liao Tang Sia*, situated in the district *Tjwan Tjioe Hoe*, which was part of the county *Tang Oea Kwan* (i.e. Tongan) (*De Javasche Courant*, 19-10-1894).

in order for the family to survive. In 1870, at the age of eleven Kwik Djoen Eng's was sent to work in the nearby town of Tongan, where he spent his entire adolescence.

In 1877 Kwik Djoen Eng moved to Java where he worked under the guidance of his uncle Kwik Hoo Tong (Guo Hedong), a younger brother of his father (Man-Houng Lin 2001: 986).[59] Kwik Hoo Tong had migrated to Semarang around the middle of the nineteenth century and managed to build up a business after years of hard work. At the time of Kwik Djoen Eng's arrival, he operated a trading firm, modestly capitalized at *f* 13,000. His son, Kwik Hong Biauw, had followed in his father's footsteps by establishing his own business career in Solo around 1868. Kwik Djoen Eng learned the tricks of the trade by travelling in the interior of Central Java, one of the many petty traders roaming the countryside. He did not trade merely on behalf of his uncle and conducted his own business on the side. Kwik Hoo Tong helped his nephew in this respect by extending credit in the form of merchandise, as was customary among Chinese (Feldwick 1926: 599; De Vries 1929: 195–196; Van Gutem 1919: 123–127).

Starting without a penny to his name, Kwik Djoen Eng had to proceed carefully during the first years of his trading activities.[60] He initially focused on accumulating capital which would allow him to expand his business. This strategy was successful, because after ten years of saving Kwik Djoen Eng could extend his interests from trading local produce to importing tea from Taiwan. This move showed his keen eye for new markets and demonstrated a transnational attitude which owed as much to his enterprising spirit as to his position as a newcomer – *Totok* or *Singkeh* – within Indonesian society.[61] The view that Chinese entrepreneurs in the Netherlands Indies were incapable of accumulating adequate liquid capital, habitually avoided risks and generally eschewed long-term and outside investments most certainly did not apply to this young businessman in his late twenties (Post 2002: 279).

Kwik Djoen Eng first visited Taiwan in 1888 to examine investment opportunities. Baozhong tea, the kind of tea grown and processed in

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[59] BI/DJB 1409 Confidential and secret correspondence Solo branch office, 09-02-1916; *Kwik genealogy* (in possession of the author).

[60] In 1919 a secret Japanese report described Kwik Djoen Eng as little more than a coolie upon his arrival in Java (Man-Houng Lin 2001: 992).

[61] Though able to communicate in Malay, Kwik Djoen Eng very much remained a Hokkien Chinese who signed his name in Chinese characters and had himself portrayed while reading Chinese literature (*De Javasche Courant*, 19-10-1894, 11-09-1903, 08-04-1909, 19-09-1911, 05-12-1916; Feldwick 1917: 1094).

Taiwan, had become popular among the overseas Chinese in Southeast Asia as the quality and export of tea grown on the eroded soils of Fujian diminished. With half a million Chinese living in Indonesia (Ong Eng Die 1943: 34–36), there was a huge market for this product. Kwik Djoen Eng's entry into this new business was facilitated by the fact that Taiwan was part of the Chinese empire and inhabited mainly by Hokkien-speaking Chinese as the island was located off the Fujian coast (Roy 2003: 11–31). In other words, when he became interested in the tea trade, Kwik Djoen Eng participated in the same Fujianese subculture to which he had been born (Ong Eng Die 1943: 29–34).

Kwik Djoen Eng set out to build up a thriving tea import business. The merchandise was bought in Taiwan and shipped to Semarang through the port of Amoy (Xiamen) in China. Replicating his cautious business strategy in Java, he did not move immediately into tea production for fear of overburdening his limited capital resources. In 1899, Kwik Djoen Eng's business was not yet listed under the sixteen main Baozhong tea firms in Tatoitia, the centre of the Taiwanese tea trade near the capital of Taipei. Here, he had established himself under the name Jinxiang. However, he already possessed a reputation as a "skilful trader". This qualification was used in a Mitsui report of 1898 which analyzed the Taiwanese tea market and identified Kwik Djoen Eng as one of the players on the scene.[62] At the time Kwik Djoen Eng had already returned to Java from where he continued to manage his commercial interests in the following decades. He would only sporadically return to Taiwan which did not prevent him from expanding and diversifying his tea interests, and transforming his Jinxiang company into one of Taiwans leading Baozhong tea cultivators cum exporters.

Operating from Yogyakarta in South Central Java, Kwik Djoen Eng also traded in a variety of agricultural products such as sugar, tea, rice, coconut oil and charcoal.[63] He decided to work independently from his uncle some time before his trip to Taiwan, although it remains unknown when

[62] Mitsui Bussan Kaisha (Mitsui Trading Company) was the foremost Japanese trading company before the Second World War. Founded in 1876, the firm was in fact an amalgamation of the trading activities of the Mitsui family whose business roots dated from the beginning of the seventeenth century. Towards the end of the nineteenth century Mitsui Bussan Kaisha had become one of the world's leading trading firms with branche offices in Singapore, Hong Kong, Bombay, Surabaya, London, Paris, New York, Sidney and the major Chinese cities. The company began selling tea from Taiwan to the United States in 1898 and soon dominated the trade (Man-Houng Lin 2001: 987, 1008; Post 1991: 36–37).

[63] BI/DJB 1412 Confidential and secret correspondence Yogyakarta branch office, 24-04-1894; *Handboek Cultuur- en Handelsondernemingen* 1896.

exactly he started his own business. With few financial resources, Kwik Djoen Eng's success or failure in business depended on his trading skills. Unlike his cousin Kwik Hong Biauw, who had been trading longer and was considered more creditworthy, he did not have access to credit from the banks.[64] He managed to increase his working capital by ploughing profits back into his trading firm. This process took years to pay off, but by the beginning of the 1890s he had earned himself widespread recognition as a skilful businessman with a bright future.

The extent to which Kwik Djoen Eng had risen from his humble origins becomes clear from the comments of M.H. Roos, DJB's office manager in Yogyakarta, in a letter to Batavia on 24 April 1894.[65] In this note – marked confidential – he informed his superiors that he had been approached by Kwik Djoen Eng a few days before with a credit request. Roos was strongly in favour of accepting Kwik Djoen Eng as a new client, even though he had never met him before, arguing that he knew Kwik Djoen Eng as a highly regarded trader, who quietly went about his business and slowly but surely had succeeded in expanding his business.

Roos was so eager to have Kwik Djoen Eng as a client that he asked for permission to discount all acceptances to the order of Kwik Djoen Eng, although the latter had never asked for such ample leeway. The purpose of his visit to Roos had been to discuss the possibility of discounting acceptances signed by Tan Tiong Hap, a trader from Ngawi with whom he had conducted business for many years. Payable in three, four or five months, these acceptances never totalled more than *f* 10,000 and, according to Kwik Djoen Eng, had always been paid in time. The initial amount of credit requested was therefore quite modest and clearly demarcated.

The use of acceptances was customary within the trading system. It served to facilitate links between wholesale and retail trade, and constituted little more than a written promise to pay someone a certain amount within a specified period of time. Upon delivery of goods the retailer would accept the merchandise by signing an IOU to the name of the wholesale supplier, after which the goods changed hands. This system of deferred payments enabled traders like Tan Tiong Hap to continue their

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[64] As a client of DJB's branch office in Solo, Kwik Hong Biauw could finance and expand his trading activities with the help of an overdraft facility secured by a mortgage on several pieces of property. This credit was furthermore guaranteed by Kwik Ing Sien and Kwik Ing Djie who stood surety for their relative and thereby took responsibility for the latter's debt to DJB (BI/DJB 66 No. 72: 12; BI/DJB 66 No. 85: 127; BI/DJB 66 No. 96: 182).

[65] BI/DJB 1412 Confidential and secret correspondence Yogyakarta branch office, 24-04-1894.

business in the countryside, and pay off their debt from the future sale of goods. The time gap between purchase and payment was thus filled by means of a wholesale supplier's credit. This had two major disadvantages. First of all, there was an obvious risk. Acceptances – i.e. IOU's – were not secured. The system was ultimately based on trust. If, for whatever reason, a borrower failed to meet his obligations, no one else could be held liable and the creditor might find himself holding a worthless piece of paper. Second, the regular and extensive use of acceptance credit (momentarily) deprived the creditor of substantial capital resources, that might be needed for the continuation of his trading business or could have been used for other more productive purposes.

Defaulting clients and/or liquidity shortages were recurring problems. Kwik Djoen Eng was no exception, as shown by his decision to turn to DJB for credit assistance. In so doing, he admitted to a shortfall in cash and a need for outside capital. His business had been supported by a capital base, whose increase depended on retained profits. This re-investment strategy no longer sufficed as any expansion in trading presupposed rising levels of credit extension. With more of the company's resources tied up, a capital injection was required to enable undisturbed business progress.

The solution to this problem was usually found in discounting acceptances by one of the commercial banks. This way the bank would advance money to the wholesaler on the basis of retailers' IOU's. In other words, by agreeing to discount acceptances of Tan Tiong Hap to the order of Kwik Djoen Eng, DJB would in effect advance Kwik Djoen Eng the same amount – minus interest – he expected to receive from the former in the near future. Acceptances used for this purpose were subsequently transferred to the agency concerned, where this so-called *handelspapier* (trading paper) was kept as collateral. Should Kwik Djoen Eng neglect to pay his debt, DJB would still be able to recover the loan by cashing in the IOU signed by Tan Tiong Hap at its date of expiration. However, should Tan Tiong Hap be unable to pay, DJB would find itself without additional security. This explains why Kwik Djoen Eng assured Roos that he had known Tan Tiong Hap for a long time and stressed that the latter had always honoured his commitments and could therefore be relied upon.

The agent did not have to take the trader's word on the reliability of his debtor. He might require additional surety by asking for the signature of one or two creditworthy persons, who could act as guarantors. If need be, the loan was to be taken over by these trusted individuals whose financial solvency ultimately guaranteed successful debt repayment. Given the interests at stake, the choice of persons had to be approved by the agent

granting the loan. However, the high incidence of defaults and bankruptcies amongst traders made it clear that this elaborate system was far from waterproof. With everyone vouching for each other, the downfall of one trader could very easily snowball into a wave of business failures. Unable to monitor exactly who acted as guarantor for whom, the agent had no option but to trust his own judgment when assessing the possible risks attached to a loan application. More often than not, it was simply a matter of personal opinion which decided whether a trader was considered trustworthy enough.

As DJB's appointed agent in Solo, Roos confronted these issues the moment Kwik Djoen Eng set foot in his office. Since both men had never been professionally involved, Roos lacked intimate knowledge of the applicant's state of affairs. To determine whether Kwik Djoen Eng was acceptable as a customer, he had to rely heavily upon the opinion of others. He soon came to the conclusion that Kwik Djoen Eng's approach to business was viewed very positively and – even more importantly – that his creditworthiness seemed solid. What persuaded him to accept the proposed deal was a letter of recommendation written by public notary W.L. de Wilde,[66] whose services – according to Roos – had been used by Kwik Djoen Eng repeatedly. Given his profession, De Wilde's opinion counted, and since he was also DJB commissioner in Yogyakarta, his judgement carried even more weight.

Being in close and frequent contact with Roos, De Wilde's support was of crucial importance to Kwik Djoen Eng. Before seeing Roos, he therefore paid De Wilde a visit on 20 April 1894 requesting that he put in a good word for him. The next day Roos received a letter, which he forwarded to Batavia with the remark that he completely agreed with its content.

Djokjakarta 21 April 1894

Amice Roos,

Kwik Djoen Eng spoke to me yesterday, regarding acceptances to his order he wished to discount at the Bank. Since the man, as far as I know, is an honest merchant, I gladly comply with his request to recommend him to You. In my opinion You can safely take acceptances endorsed by him to an amount of *f* 25,000.[67]

Regards
W.L. de Wilde

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[66] *Handboek Cultuur- en Handelsondernemingen* 1896.

[67] BI/DJB 1412 Confidential and secret correspondence Yogyakarta branch office, 24-04-1894.

On the basis of this information from Yogyakarta, President and Directors of DJB were happy to accept Kwik Djoen Eng as a new customer without even demanding additional security. Naturally, Kwik Djoen Eng must have been delighted when he received word from Roos that his request for credit assistance had been granted. The decision not only enabled him to expand his business, but also awarded him greater leverage than he had envisaged. (After all, Tan Tiong Hap's acceptances had never exceeded *f* 10,000.) Taking the *f* 40,000 he put into KHT a few months later as an indication of his financial resources, the *f* 25,000 he could now call upon strengthened his financial scope considerably. Under normal circumstances, i.e. by means of retained profits alone, such a large increase in capital would have taken years to accomplish. In addition, the fact that Kwik Djoen Eng had been accepted by the colony's most prestigious bank as a client affirmed his growing reputation as a trader.

A few weeks later Kwik Djoen Eng and his cousin Kwik Hong Biauw decided to convert their trading firms into a single enterprise named after their uncle and father Kwik Hoo Tong. Little is known about the initial period of KHT's existence, although the company did not make a strong start. In December 1894, for instance, DJB's agent in Solo reported that Kwik Hong Biauw had not been doing very well. The President and Directors concluded that a watchful eye should be kept on his affairs. They suspected that business problems might have been the reason that he had turned his trading enterprise into a limited liability company in the first place.[68] The information received from Yogyakarta regarding Kwik Djoen Eng did not warrant great optimism either. In July 1895 Roos informed Batavia that KHT's Yogyakarta branch office had closed its first year with a turnover of approximately *f* 700,000 with a profit of about *f* 9,000. A profitability rate of less than 1.5% was far from satisfactory "in view of the risk connected to sales". However, it was decided that these meagre results did not give cause for any change in DJB's policy concerning KHT.[69]

This attitude can be understood by taking account of the fact that KHT's clientele was of great significance for the Solo and Yogyakarta branch offices of DJB. Both depended for a substantial part of their earnings on business generated by KHT. According to an inspection report, dated 13 November 1895, KHT was DJB's foremost client in the Principalities and the only one to be granted advances secured by lien on merchandise. Commercial banks like DJB favoured the extension of credit on the basis

[68] BI/DJB 66 No. 99: 188.
[69] BI/DJB 67 No. 38: 215.

of merchandise, since it allowed them to recover (part of) their loans by selling the goods placed under their control in case of payment difficulties. These goods were therefore inspected regularly to make sure that the advances were still adequately secured. KHT had been extended credit against sugar and rice, all of which turned out to be in place after close inspection. Special attention was also given to Kwik Hong Biauw himself, because of his suspected motives for participation in KHT, but both his personality as his business were considered impeccable and of "undisputed trustworthiness".[70]

According to KHT's articles of association the company's main purpose was to trade in sugar, tea, rice, and other articles. KHT's activities did not yet include the production and import of tea from Taiwan. Kwik Djoen Eng continued to run this business separately until 1909, although tea retailing within Central Java was conducted under the auspices of KHT.[71] Throughout this entire period, the records of DJB do not show a single entry regarding the tea trade. Whether Kwik Djoen Eng financed his extensive tea interests himself, or managed to find other financiers remains unclear, although he did develop close ties with the Bank of Taiwan after its establishment by the Japanese government in 1899 to support the economic development of Taiwan (Van Horn et al. 2000: 186; Man-Houng Lin 2001: 1004–1005).[72]

KHT's core business after its establishment was the retail trade of *goela batoe* or *broksuiker* (lump sugar) which it produced itself in Yogyakarta. Later the company successfully expanded this business and came to operate several factories throughout Central Java.[73] KHT was also very active in the import and distribution of rice. Most rice was imported from Saigon via Java's southern port of Cilacap, although rice from West Java's Preanger region was traded as well. DJB was closely involved in financing both businesses, normally granting KHT advances of 75% to 80% of the market value.[74] The maximum credit extended was set at *f* 300,000, divided evenly

[70] BI/DJB 68 No. 74: 59–61.

[71] *De Javasche Courant*, 08-04-1909.

[72] Taiwan became a colony of Japan in 1895 after the conclusion of the Sino-Japanese war (1894–95) and would remain so until the end of the Pacific War in 1945 Roy (2003: 32–54).

[73] BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 07-08-1912; BI/DJB 103 No. 103: 143.

[74] Numerous entries in the minutes of DJB's weekly Board meetings in Batavia attest to the bank's deep involvement in financing the trading activities of KHT. For instance, between 1901 and 1906 over thirty advances secured by lien on agricultural produce were discussed and approved of by the President and Directors. Almost two thirds of these

between the Solo and Yogyakarta office. Kwik Djoen Eng and Kwik Hong Biauw could therefore dispose of *f* 150,000 each with a limit of *f* 100,000 for sugar and *f* 50,000 for the trade in rice and other articles. This confirms that sugar was the company's main activity utilising most of its capital resources. Other products, e.g. *kacang kedele* (soy beans) and white beans appear to have been traded only for swift returns. DJB would extend modest advances between *f* 10,000 and *f* 30,000 on these products.

For about twenty years the overdraft facilities granted to KHT remained basically the same with little or no change in the percentages advanced or in the total amount of credit extended. Credit limits were sometimes relaxed when specifically requested, but such requests were rare and only granted as a temporary measure.[75] Nevertheless, KHT's business activities did expand slowly, turning in a profit judged by the company's increasing capitalization. At the end of the financial year 1901/02 KHT was capitalized at *f* 301,000, a sizeable increase compared to the initial *f* 200,000 invested in 1894. The company's capital had thus gained *f* 101,000, made up of *f* 30,000 in reserves and *f* 71,000 in deposit accounts.[76] Deposits of this kind consisted of paid out profit which belonged to one or more of the partners, but had not been withdrawn from the company. Though regarded as long-term assets, these accounts really constituted short-term capital at temporary disposal. Reserves had been built up by putting aside twenty percent of each year's profit, from which can be deduced that KHT's accumulated profits had reached *f* 150,000, i.e an average of *f* 18,750 over the past eight years. This amount surpassed the *f* 16,500 annual profit deemed feasible by the Kwik relatives at the time of incorporation.

By these standards KHT proved a viable enterprise, even though its balance sheet of 1901/02 had shown a loss of *f* 11,000 which had been compensated by the reserve account. This particular shortfall came entirely from the Solo office, since the office in Yogyakarta had managed to make a profit. Nevertheless, with cash reserves of *f* 41,000 KHT could withstand a financial downturn. At this point, KHT's financial resources – estimated at an impressive *f* 600,000 including the overdraft facilities provided by DJB – sufficed to allow further expansion. From 1902 KHT started to export sugar to China and Japan for which purpose storage facilities in Semarang and Surabaya were acquired. In both cities, KHT turned to DJB for new

requests for credit – twenty in total – originated from Kwik Hong Biauw and had been passed on for approbation by DJB's agent in Solo (BI/DJB 75–85).

75 BI/DJB 85 No. 26: 287.

76 BI/DJB 77 No. 65: 29, No. 69: 40.

advances against sugar in storage. These were granted under the condition that all DJB agencies involved in assisting the company (i.e. Solo, Yogyakarta, Semarang and Surabaya) were to inform each other weekly on the status of their respective credit arrangements with KHT.[77] This was to prevent KHT's total debt account from spiralling out of control.

This new course paid off as the net result over 1902/03 increased *f* 100,000 compared to the year before. Kwik Djoen Eng reported that total profit amounted to *f* 89,000 to which the Solo office had contributed *f* 26,000 and the Yogyakarta office *f* 63,000. In line with the changing emphasis from imports to exports, far less capital had been employed to achieve this "magnificent result". Solo deployed *f* 220,000, whereas Yogyakarta worked with a capital of *f* 145,000. Unlike the import business, where low profitability and high turnover went hand in hand, exporters could do more with less capital because of the absence of supplier's credit and swift and more regular payment. This explains why KHT's turnover of *f* 700,000 during the year 1894/95 had seen a meagre profitability rate of less than 1.5%. This situation was reversed in 1902/03, when a profitability rate of 24% was achieved with *f* 365,000.[78]

In the following years the financial results of KHT proved equally impressive. In 1905 KHT closed its books with a staggering profit of *f* 396,000 leaving the company capitalized at *f* 575,000. Of this amount, more than half (*f* 328,000) belonged to the partners, some of whom had decided to leave part of their profit at the disposal of KHT. By now, the reserve account should have reached its statutory maximum of *f* 100,000, but it remained at *f* 47,000, i.e. the level it had reached in 1903. For two years, the partners paid no attention to the provisions regarding the reserves. They apparently preferred to pocket even more money. This could prove costly in the event of disrupted family ties, a falling out between partners or, even more likely, complications arising from the death of one of them.[79]

The first partner to pass away was Kwik Ing Hie (before 1899). His forty shares in KHT were divided among Kwik Hong Biauw (14), Kwik Ing Djie (13) and Kwik Ing Sien (13).[80] Kwik Djoen Eng received no additional shares, which suggests he was occupying a junior position within the

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77 BI/DJB 77 No. 73: 70; BI/DJB 78 No. 21: 78; BI/DJB 81 No. 18: 73, No. 31: 139.

78 BI/DJB 1408 Confidential and secret correspondence Solo branch office, 24-07-1903; BI/DJB 80 No. 62: 40.

79 BI/DJB 82 No. 82: 167; BI/DJB 83 No. 42: 139.

80 *De Javasche Courant*, 11-09-1903.

partnership at the time. Kwik Ing Djie passed away on 26 July 1899. Kwik Bok Tjay inherited his father's estate including 53 shares in KHT (see Box 5.2). DJB did not hear of Kwik Ing Djie's death for more than two years, and it was only by chance that his death became known to DJB. Upon meeting Kwik Ing Sien in October 1901 agent Nieuwenhuizen – the successor of Roos – expressed his amazement that he had never seen or spoken to Kwik Ing Djie, whereupon he was told of his death. Kwik Ing Sien assured him that Roos had been informed immediately. Whether or not this was true, the whole affair was far from professional and raised serious questions as to the supervision of DJB's clientele.[81] In 1903 Kwik Ing Sien himself – the last of the three 'silent partners' in KHT – passed away. His 53 shares in KHT were transferred to Kwik Hong Biauw, who became majority shareholder with 107 shares against 53 shares for Kwik Bok Tjay and 40 shares for Kwik Djoen Eng (see Box 5.2).[82]

*KHT's Business Expansion*

In that same year, on 7 July 1903, a special KHT shareholders meeting was held in Semarang at the office of public notary J.H.A. van Barneveld.[83] Present were Kwik Hong Biauw (Director and Solo Agent), Kwik Djoen Eng (Yogyakarta Agent), Kwik Bok Tjay and Kwik Bok Ay,[84] one of Kwik Hong Biauw's sons who was a merchant in Solo (see Box 5.1). The meeting had been convened by Kwik Hong Biauw with the purpose of changing the company's articles of incorporation which he justified by noting "the considerable expansion in trade relations over the last few years". KHT's management structure needed to be revised. Important aspects like accountability, clear lines of communication, growing market exposure, increased financial commitments, the establishment of new agencies and so on required so much attention that KHT's business could no longer be handled by Kwik Hong Biauw and Kwik Djoen Eng alone.

Next to a number of smaller changes, Kwik Hong Biauw's proposal was to appoint principal agents in order to supervise the ordinary agents, who were to be accountable only to the Director (i.e. himself). Time absorbing tasks would be delegated to this middle management level. After endorsing his plan, the decision was made to reaffirm Kwik Hong

[81] BI/DJB 1408 Confidential and secret correspondence Solo branch office, 30-10-1901; BI/DJB 76 No. 61: 33.
[82] *De Javasche Courant*, 11-09-1903, 08-04-1909.
[83] *De Javasche Courant*, 11-09-1903.
[84] *Handboek Cultuur- en Handelsondernemingen* 1902: 622.

Biauw as Director and appoint Kwik Bok Tjay as Deputy Director. Kwik Djoen Eng and Kwik Bok Ay were subsequently nominated as principal agents. These measures left Kwik Hong Biauw firmly in control and strengthened his position. In addition, he successfully managed to bring his son into the firm carrying the same title as Kwik Djoen Eng, indicating that the latter was still forced to play second fiddle.

The most intriguing of the smaller changes was the addition of a single sentence to article 23. This proved of great significance to KHT's fortune. In the original version of July 1894, the article read as follows:

> Article 23
>
> The shareholders, the agents, the director, their replacements, as well as the representatives of shareholders at the general meeting have to be Chinese.[85]

The proposed changes in management structure required only slight alterations in the phrasing of article 23, which makes the appearance of a second section puzzling:

> Article 23
>
> (1) The shareholders, director, deputy director, principal agents, agents, as well as the authorized representatives of shareholders at the general meetings have to be Chinese.
> (2) This provision, however, does not include the founders and their descendants, even if they should change to another nationality or be equated with it.[86]

The rationale behind this can be found in the possibility of reducing commercial risk by carrying multiple nationalities (Man-Houng Lin 2001; Post 1995: 164). This practice was well accepted amongst the overseas Chinese in Southeast Asia and made possible by the flexible nature of the prevailing nationality laws. China's failure to provide any measure of security for its citizens abroad and their feeble minority position contributed as well. Obtaining Japanese nationality was particularly interesting for those living in the Netherlands Indies, especially after 1899, when Japanese citizens in the Dutch colony acquired European status.

This ruling also applied to the inhabitants of Japanese colonies such as Taiwan, which had been wrested from the Chinese in 1895. As a result, the legal nationality of Taiwanese was Japanese, whereby a differentiation was made between indigenous islanders (predominantly Chinese of

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[85] *De Javasche Courant*, 19-10-1894.
[86] *De Javasche Courant*, 11-09-1903.

Fujian descent), aborigines (known as the highlanders) and those who took Japanese nationality from Taiwan but stayed in China or Southeast Asia. The Japanese referred to the last category as *sekimin* or *Taiwan sekimin*, meaning a 'person registered in Taiwan'. Though generally resenting the Japanese, many Chinese in the Netherlands Indies were quick to recognize the advantages of registering as a *Taiwan sekimin* and obtaining a higher legal status in the sense that a European status offered more legal protection.

Businessmen operating from Taiwan itself also benefited from such registration as it elevated their status and helped them gain better access to Japanese government and business circles (Roy 2003: 45). With regard to the trade and production of tea, the Japanese occupation of Taiwan had had several consequences. First, with Taiwan abandoning silver in favour of gold as backing for its currency, it became more convenient to trade directly with the Netherlands Indies where a (pseudo) gold standard was in place, rather than trading indirectly through China where silver remained the most important medium of exchange. The adoption of the gold standard by Japan in Taiwan was also beneficial on account of the fact that silver declined in value throughout the late nineteenth and early twentieth centuries. This would have diminished export profits. Second, as Kwik Djoen Eng remarked himself, under Japanese rule it became cheaper to ship tea via Keelung in Northeast Taiwan. After all the use of Amoy (Xiamen) as a transit point meant paying Chinese customs duties. Third, as a colony of Japan Taiwan came to enjoy a period of economic prosperity and political stability which improved the business environment and investment climate of the country (Roy 2003: 38–40, 54). In 1905, Kwik Djoen Eng recalled how Taiwan used to be plagued by local bandits, stating that Japanese management had dramatically changed the island within just a few years.

Kwik Djoen Eng probably started to contemplate registration in Taiwan after starting the production of tea around the turn of the century. The quality of tea produced in his factory in Tatoitia near Taipei became renowned and received first price at the Osaka fair in 1904. The available sources do not reveal how he financed this business, but Kwik Djoen Eng's first contacts with the Taiwan Bank date from this period. The bank encouraged entrepreneurial initiative and would have welcomed financial requests for new investments.[87] At the same time Kwik Djoen Eng must have known that his status within the Japanese business community

[87] See also *Taiwan Nijiniji Shinpo*, 03-03-1923 as found translated in BI/DJB 2959.

would increase if he became a Japanese subject. This also applied for his partners in KHT, certainly after the company had become active in the export of sugar to Japan. To get better access to Japanese shipping and bank credit, registration as *Taiwan sekimin* was thus something to be considered.

This explains the adjustment of article 23 which prepared KHT for future developments. In the end, the urgent desire for an improved legal status within the Netherlands Indies proved more pressing, as early in the morning of Tuesday 21 July 1903, only two weeks after the shareholders meeting, Kwik Hong Biauw was unexpectedly arrested on a drug charge.

The local newspaper of Solo – *De Nieuwe Vorstenlanden* – reported about the event:

> Yesterday morning, very early, the police had the houses of several well-to-do Chinese fenced off whereupon a search was conducted the moment the doors to the street were opened. It was well prepared. The occupants were surprised, and the police found what they were looking for, i.e. opium.
>
> All together it must have been a considerable result.
>
> The question is, however, whether a punishable act had been committed. After all, the wrapping of the opium was the farmer's. Right now, it seems obvious to assume that the farmer has disposed of his remaining opium at the last moment against reduced prices. How much is the maximum amount of opium one may have at home? In one Chinese house a basket full of empty opium cans was found.
>
> One may well wonder whether all that opium was for personal use or whether it had been (smuggled) traded as well.
>
> In any case, ever since January, so for well over half a year, the Government has sold far less opium than it could have sold had it not been for this final act of the farm. That meant a loss of profit, and one can assume that still more such opium is held by rich Chinese, who stocked up on a cheap supply at the end of last year.
>
> And then another question arises: Is the farmer not liable to punishment as well, for selling wholesale?…
>
> Finally, we have been informed that the opium has been sent to Batavia for examination in order to ascertain that the opium does not originate from the *Regie*.[88]

The article did not identify the Chinese involved and failed to mention whether anyone was arrested. Nieuwenhuizen knew Kwik Hong Biauw to be an opium smoker and paid Assistant-Resident Hofland a visit to obtain more information.[89] Hofland acknowledged that the houses of eight

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[88] *De Nieuwe Vorstenlanden*, 22-07-1903.

[89] BI/DJB 1408 Confidential and secret correspondence Solo branch office, 24-07-1903; BI/DJB 1344 Confidential and secret correspondence Semarang branch office, 28-06-1904.

Chinese, including the home of Kwik Hong Biauw, had been searched. Three times the permitted amount of opium had been confiscated from his home, a part of which appeared not to have been produced in the government opium factory in Batavia. Consequently, Kwik Hong Biauw had been charged with possession of illegal drugs. According to Hofland, his punishment would depend upon the outcome of opium tests in Batavia. Nieuwenhuizen conferred with Be Kwat Koe, Captain of the Chinese in Solo, who feared Kwik Hong Biauw might be sentenced to three months of hard labour. Convinced that the elderly Director of KHT would not survive this, Nieuwenhuizen returned to Hofland to plead Kwik Hong Biauw's case and ask for clemency. However, Hofland merely said that justice should follow its course.

According to Nieuwenhuizen the aim of the search had been to find smuggled opium, since the abolishment of the opium farm in Solo at the end of 1902 had seen an enormous reduction in the sale of opium. Solo was one of the last areas in Java where the system of selling opium through private traders was replaced by the state-run *Opium Regie*. Understandably, the colonial administration tried to battle smuggling as it cut revenues. Under the *Regie* all confiscated opium was examined by chemists in Batavia to determine its origin. The chemical trace added to legal opium could be revealed by means of a simple test. The result served as evidence in legal cases involving violations of the opium law. Such cases were tried locally before the police roll and Landraad, and often chaired by incompetent and far from impartial civil servants. Despite the fact that Kwik Hong Biauw's offence was negligible, he could expect to receive harsh punishment, since the authorities seemed inclined to set an example (Rush 1990: 228–229).

Needless to say Kwik Hong Biauw dreaded the trial. Kwik Djoen Eng told Nieuwenhuizen on Friday morning 24 July 1903 that his cousin was "very depressed, wishing to die rather than endure the shame of *krakal* (hard labour)". According to him, the death of Kwik Hong Biauw would not effect the operations of KHT, or the firm's legal structure since Kwik Bok Ay would get his father's stock as his sole heir. However, should the affair cause DJB to reconsider its business relationship with KHT, Kwik Djoen Eng requested time to enter into negotiations with other commercial banks in view of the large sugar transactions being conducted in Semarang, Yogyakarta and Solo. Nieuwenhuizen requested the President and Directors of DJB not to terminate the relationship with KHT. He pointed out that over the years the company had faithfully and promptly honoured its obligations, as could be confirmed by the DJB agents in

Semarang and Yogayakarta. Still, should Kwik Hong Biauw's position as Director of KHT be deemed untenable, he was confident that Kwik Hong Biauw would agree to step down.

In the end the drug charge against Kwik Hong Biauw was dropped and he was released from prison. A few years later Nieuwenhuizen would write that his continued involvement had been helpful, although it would go too far to attribute Kwik Hong Biauw's acquittal entirely on his intervention.[90] The examination of the confiscated drugs had shown that it was part farm-opium and part *Regie*-opium; a possible combination since the opium farm had only recently been abolished. Given the limited amount of opium, it was too farfetched to consider Kwik Hong Biauw a smuggler. Still, the affair had serious consequences, because the telegraphic code of KHT had been seized and remained in the hands of the *Opium Regie* for more than a year.[91] Without this fast and reliable means of communication, KHT was seriously handicapped in its overseas business and suffered considerable financial damage, as did Kwik Djoen Eng who appears to have used the code as well to conduct his tea business.

The unpleasant confrontation with Dutch law enforcement and the biased judicial system of the colony convinced Kwik Hong Biauw and Kwik Djoen Eng of changing their legal status forthwith. This required a trip to Taiwan where a piece of land had to be bought. When the purchase deed was handed to the Japanese consulate general in Singapore on the return voyage, the owner would receive the necessary paperwork proving him to be a *Taiwan sekimin* and therefore a Japanese national. Within half a year Kwik Hong Biauw and Kwik Djoen Eng had made use of this Japanese "loophole" and registered themselves as a citizen of Taiwan, which automatically gave them European status upon their return to the Netherlands Indies (Post 1995: 164).[92]

Despite the legal difficulties KHT showed impressive financial results after the turn of the century. KHT's business operations – above all its exports to the Far East – kept expanding and most of the company's resources and energy were directed outward. The growing importance of sugar sales abroad made Semarang the geographic focus of KHT's trading activities. The successful participation in the sugar trade owed much to its

[90] BI/DJB 1413 Confidential and secret correspondence Yogyakarta branch office, 17-06-1908.

[91] BI/DJB 1344 Confidential and secret correspondence Semarang branch office, 28-06-1904.

[92] BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 19-02-1913.

high level of capitalization. This allowed the advance of money to sugar planters and speculation on future price developments. As large amounts of capital were thus withdrawn for longer periods, a high level of fixed capital was needed. However, KHT's capital structure was geared towards short-term rather than long-term capital. This can be attributed to the fact that KHT was basically a family enterprise. Though founded as a limited liability company, the concept seems to have been of little relevance to the members of the Kwik family who failed to distinguish between private and company capital.

Kwik Djoen Eng recognized the growing discrepancy between capital requirements and business attitude.[93] He repeatedly tried to persuade his partners to increase the amount of fixed capital, but failed to convince them. In 1907 he even called in the help of Nieuwenhuizen who agreed to travel to Solo to confer with Kwik Hong Biauw and his sons Kwik Bok Ay and Kwik Bok Ke about this matter. In the end, the combined efforts of Kwik Djoen Eng and Nieuwenhuizen succeeded, because in the first half of 1908 the decision was made to enlarge the trading firm's working capital. Almost a year would pass to prepare all the details, but on 10 February 1909 the partners in KHT finally met in the office of public notary J.H.A. van Barneveld in Semarang.[94] At this extraordinary shareholders meeting several decisions regarding the company's future were to be formalized.

The meeting was opened by Kwik Hong Biauw who briefly explained that they had been called together for three purposes: to enable enlargement of the partnership's capital, to change its management structure and to move its seat. In accordance with business volume KHT would be registered in Semarang instead of Solo. The total amount of share capital saw a substantial increase of *f* 500,000 and was determined at *f* 700,000. Kwik Hong Biauw took most of the new shares and invested an additional *f* 210,000 which brought his interest in KHT at *f* 317,000. Kwik Djoen Eng increased his share capital with *f* 140,000 to bring his total investment at *f* 180,000. Kwik Bok Tjay took an additional interest of *f* 120,000 to participate in KHT with *f* 173,000. The remaining *f* 30,000 were paid up by Kwik Bok Ay, who had owned no shares up till then. The new shares were fully paid in cash or merchandise. Kwik Djoen Eng partly paid for his investment by transferring his tea factory in Taiwan to the partnership in exchange for shares. KHT valued the factory at *f* 40,000 and continued its

[93] BI/DJB 1413 Confidential and secret correspondence Yogyakarta branch office, 17-06-1908.

[94] *De Javasche Courant*, 08-04-1909.

operations. In addition, the company would establish an agency in Tatoitia and return the factory's working capital to Kwik Djoen Eng (see Box 5.2).

By bringing in his tea business, Kwik Djoen Eng bet all his cards on KHT. Judged from the changes in management this was a calculated move. Kwik Hong Biauw, who was getting older, gave up his position as Director and was appointed commissioner. This position was new and carried the right of supervising the company's management. Kwik Djoen Eng was appointed his successor and became KHT's second Managing Director. Kwik Bok Tjay and Kwik Bok Ay retained their management positions as Deputy Director and principal agent. At the age of fifty Kwik Djoen Eng's had reached the social and economic status of which he had dreamt ever since he set foot on Javanese soil. He still had to accept the presence of Kwik Hong Biauw, but it can safely be argued that Kwik Djoen Eng had become the public face of the Kwik Hoo Tong Handelmaatschappij.

KHT's capital injection of half a million guilders was needed to sustain the firm's position within the competitive sugar trade. With a share capital of *f* 700,000 and a maximum reserve account of *f* 300,000 it was foreseen that business operations would be conducted with a total fixed capital of *f* 1,000,000. This amount should suffice to fight off the competition and provide a solid basis for further expansion. After all, KHT was not the only one interested in reaping the profits of the speculative sugar business. Within Semarang there were at least fifteen to twenty Chinese actively trading sugar.[95] At the end of the first decade of the twentieth century KHT ranked among the five largest Semarang sugar firms. However, the Kwik relatives could not yet compete with the trading firms of Oei Tiong Ham (i.e Kian Gwan) and The Ing Tjiang.[96]

As a major player KHT required more capital and it started to turn to other banks besides DJB. Nieuwenhuizen warned Batavia of this new development when he wrote in December 1910 that KHT had also become a client of the NHM, NIHB, and NIEM whereas it used to bank exclusively at DJB. As a result, virtually all rice deals had been lost in the past few years.[97]

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[95] A DJB report on Chinese sugar buyers active in Semarang around 1911 mentioned eighteen of them in the following order of importance: Oei Tiong Ham (Kian Gwan), The Ing Tjiang, Kwik Hoo Tong, Gan Kang Sioe, Oei Tjoe, Goei Kee Sioe, Goei Kee Hoo, Thio Sing Liong, The Oen Hiang, The Tjioe Swie, Tjan Pit Sing, Siek Djwee Kioe, Kwong Hop, Lo An Sien, Go Boen Tjan, Tan Boen Kiem, Yoe Siang, and Tjoe Tong Sing (BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 09-06-1911).

[96] BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 10-02-1909.

[97] BI/DJB 1413 Confidential and secret correspondence Yogyakarta branch office, 08-12-1910.

KHT's capital requirements were only temporarily satisfied. In July 1911 the company's share capital was further increased with *f* 300,000 and set at *f* 1,000,000. The additional three hundred shares were divided among the different partners: Kwik Hong Biauw 103; Kwik Djoen Eng 70; Kwik Bok Tjay 77; Kwik Bok Ay 20; and Kwik Bok Ke, another son of Kwik Hong Biauw, 30. Kwik Hong Biauw's investment in KHT now stood at *f* 420,000, whereas Kwik Djoen Eng and Kwik Bok Tjay both owned a quarter of the company with an investment of *f* 250,000 each. Kwik Bok Ay and Kwik Bok Ke had only minor interests in KHT with participations of *f* 50,000 and *f* 30,000 respectively (see Box 5.1 and 5.2).[98]

The renewed increase in capital was accompanied by two other changes needed to prepare KHT for further expansion. At a shareholders meeting held in Semarang on 17 July 1911, Kwik Djoen Eng said that new branch offices would be opened and that the stated purpose of the company had become too limited and ought to be reconsidered. Both points were conceded and the articles concerned were changed accordingly. The purpose of the company was now described in very general terms as [...] *het drijven van handel in het algemeen in alle zaken, welke daarvoor vatbaar zijn*. ("[...] trading in all matters which lend themselves for this.") No exception was made, except for the purchase of stocks and bonds which was subject to special approval by a general shareholder meeting.[99] Nevertheless, KHT remained first and foremost a sugar company purchasing large quantities of the unrefined product in Java for export to Japan, China and Europe. In addition, Kwik Djoen Eng set up KHT's own sugar factory in China at the beginning of 1911 which could apparently process 40,000 *picol* of sugar annually.[100]

Reporting a record profit of *f* 900,000 in the financial year 1911/12, no one questioned the soundness of KHT's policy.[101] The Semarang agent of DJB, W.F.J. Keuchenius, wrote on 7 August 1912 that KHT had bought and sold more than one million *picol* of sugar in the past few months, with a large shipment of sugar still on its way to Europe. These transactions would most likely turn in a handsome profit. Since KHT had experienced no serious setbacks so far, Keuchenius summarized the company's

98 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 27-07-1911.

99 *De Javasche Courant*, 19-09-1911.

100 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 09-06-1911, 27-07-1911, and 30-08-1912.

101 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 07-08-1912.

financial position as "extremely strong". Furthermore, he characterized those running the firm as "decent traders" with an impeccable reputation. The fact that large sugar producers such as the Koloniale Bank and the Cultuurmaatschappij der Vorstenlanden were still prepared to sell KHT sugar – despite the huge quantity the company had already purchased – was seen by him as a vote of confidence. According to him KHT could safely be counted among DJB's most reliable debtors.

Normally, DJB's most trustworthy clients would be awarded a maximum advance of eighty percent on sugar against a conservatively estimated market value. But, as Keuchenius explained, other banks were willing to extend Kwik djoen Eng at least ninety percent. In order to keep KHT as a customer, he had seen no alternative but to deviate from DJB's strict regulations and negotiate a deal allowing an advance of slightly less than ninety percent. Though less favourable than the conditions offered by the other banks, Kwik Djoen Eng had preferred to continue his relationship with DJB and accepted an agreement under these terms. Keuchenius justified his unauthorized behaviour by underlining KHT's excellent financial position which would enable it to pay its instalments regardless of a sudden and unexpected fall in the market price of sugar. However, the deal was also partly inspired by his intention to recapture the profitable ties with Chinese wholesale traders. These had eluded the Semarang agency lately because of intense competition among the banks. Keeping the highly valued sugar business of KHT was crucial in this respect and therefore celebrated by Keuchenius who knew that DJB was no longer automatically ensured of KHT's clientele as had been the case.[102]

Keuchenius was not reprimanded for his decision to accommodate KHT, even though DJB had a very hierarchical structure with little room for individual initiative. The agents were expected to report on all matters and had to provide Batavia with detailed information on any subject at a moment's notice. The procedure was to await consent from headquarters before taking any action, but this modus operandi sometimes ran counter to the profit objective of DJB and the speed required to close business deals. The lenient attitude of DJB's management with regard to the agreement with Kwik Djoen Eng is better understood when reading Keuchenius' confidential letter of 23 November 1912.[103] In this letter he explained that

[102] BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 04-09-1912.

[103] BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 23-11-1912.

KHT would earn a nice profit that year and with the enormous profit of the previous year in mind the company's position remained exceptionally strong. As a result he was confident that the large credits extended to KHT by the Semarang, Solo and Yogyakarta agencies would be repaid without difficulty. Keuchenius estimated that these sugar credits totalled approximately *f* 1,000,000. With sugar loans yielding four percent interest in 1912, this would earn DJB almost *f* 40,000 (De Bree 1928: II Appendix O).[104] Keuchenius received no rebuke from head office. In fact, his example was almost immediately followed by, for instance, the Yogyakarta agency where credit restrictions were likewise eased in an effort to keep KHT on board.[105]

By now, KHT's sugar business had expanded so rapidly that the company started to exhibit the first signs of strain. The most obvious problem was a growing shortage of storage capacity. In Semarang, the company's godowns no longer sufficed and extra godown space needed to be rented against high additional cost to store the sugar.[106] In Solo, most of the sugar godowns used by KHT were judged totally inadequate. During inspection in September 1912 they were found to be crammed to the roof, making it impossible to assess the actual amount of sugar stored.[107] Less noticeable, but of bigger consequence in the long term, was the growing paperwork accompanying the increasing scale of business. The number of transactions, concerning ever larger quantities of sugar, had multiplied explosively over a short period of time. With each new deal the administrative process became more complicated, requiring more attention and expertise from the office staff. In November 1912, Keuchenius expressed his dissatisfaction to Kwik Djoen Eng regarding the careless manner in which incompetent personnel took care of the details of his ever larger business.[108] Regrettably, little attention was paid to these valid concerns.

Notwithstanding these problems KHT continued to expand its sugar interests. In 1913 1,350,000 *picol* of sugar were bought and traded for a "sweet little profit" (*zoet winstje*). Though the market price for sugar was significantly lower than the year before, Kwik Djoen Eng told Keuchenius

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104 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 04-06-1917.

105 BI/DJB 95 No. 38: 293–294.

106 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 30-08-1912.

107 BI/DJB 95 No. 38: 316.

108 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 23-11-1912.

that he preferred a so-called *oentoeng tipies* (small profit) and chose not to speculate on the market "as long as the price was not clear" (*sebab harga belon terang*). This cautious attitude was much to the liking of DJB and KHT was granted the privilege of full advances (*vol voorschot*) against sugar stocks already sold, but still awaiting shipment. In other words, the limit of ninety percent was dropped and the estimated value of the sugar concerned was advanced completely. The extension of credit on these generous conditions was meant to retain the banking business of KHT and keep DJB's competitors at bay. Keuchenius knew, for instance, that the NIHB had closed deals with Kwik Djoen Eng on similar terms.[109]

The advent of the First World War heralded an extraordinary period in the history of KHT. As a result of the war in Europe major beet sugar producers such as Germany, Austria and Russia stopped exporting sugar. Beet sugar completely disappeared from the world market and the demand for Java sugar soared. Great-Britain and, to lesser extent, France placed large orders with the traders in Java to guarantee sufficient supply. In an immediate response to these exceptional circumstances sugar prices nearly doubled in 1914 and continued to rise in the following years (Leidelmeijer 1997: 40; Tio Poo Tjiang 1923: 37). Realizing the enormous opportunities, KHT applied itself with even more vigour to the export of sugar. This paid off, because in 1914/15 the company's profit was estimated to have reached a staggering three to four million guilders.[110]

### *Conflict and Speculation*

Ironically, this outstanding result also carried the seeds of future discontent. The first signs of a simmering family conflict manifested itself at the end of January 1916, when it became known that Kwik Bok Ay, son of Kwik Hong Biauw, had suddenly left Java for Saigon taking with him *f* 900,000 of his father's deposits at KHT. This unauthorized action had been inspired by fear of losing a substantial part of his inheritance upon the death of his elderly father. His younger half-brother Kwik Bok Ke – the son of the second wife (*mama nommer doea*) – had persuaded Kwik Hong Biauw to put all of his property in the former's name, although under Japanese law this belonged to the eldest son. Kwik Bok Ay thereupon requested his father to pay out the accumulated share in the profits of KHT to which he was

[109] BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 07-06-1913 and 24-07-1913.

[110] BI/DJB 1409 Confidential and secret correspondence Solo branch office, 22-01-1916.

entitled as shareholder and principal agent. Owing to the excellent results of the last few years, Kwik Bok Ay himself estimated his share to be worth more than one million guilders. Fearing the legal intricacies involved in long drawn-out inheritance disputes, he took matters in his own hand after Kwik Hong Biauw bluntly refused his request. Making use of his mandate as principal agent, he took what he considered to be his legal right and left Java to try his luck elsewhere. Kwik Bok Ay ended up in Taiwan, where he invested in the trade between China and Japan and became a successful businessman in later years (Man-Houng Lin 2001: 1000).[111]

Kwik Bok Ay's mandate was withdrawn by Kwik Hong Biauw the moment his disappearance was detected. Still, the family dispute was far from resolved. On 5 February 1916, J.C. Byleveld – Keuchenius' successor as agent of DJB in Semarang – wrote that Kwik Bok Ke's mandate as agent of KHT in Solo had been withdrawn as well. Furthermore, he announced Kwik Djoen Eng's resignation as Director of KHT at the end of the financial year on 31 May 1916. According to him, Kwik Djoen Eng and Kwik Hong Biauw did not see eye to eye with regard to the future course of KHT and failed to agree on the necessary steps to be taken. Finally, after endless bickering, Kwik Djoen Eng decided to throw in the towel and establish a new trading firm with a fixed capital of *f* 3,000,000 operating under the name: Handel Maatschappij Kwik Djoen Eng. Byleveld made no secret of the fact that he supported this new company wholeheartedly. Kwik Djoen Eng had become a trader to whom everyone was willing to grant credit. Even the NHM, who would not sell any sugar to Chinese traders with the exception of Oei Tiong Ham, had agreed to give Kwik Djoen Eng the same facilities as the so-called 'Sugar King'. Whether KHT would liquidate its affairs after the departure of Kwik Djoen Eng or continue in business remained unclear. However, Byleveld expressed little faith in the viability of a company crippled by the withdrawal of millions of working capital and made it clear that for the time being he would no longer extend any credit to KHT.[112]

Kwik Djoen Eng offered the following explanation for these surprising developments. Despite all his attempts Kwik Hong Biauw could not be convinced of the necessity of enlarging KHT's share capital of *f* 1,000,000, even though the amount of fixed capital could not support the company's

[111] BI/DJB 1409 Confidential and secret correspondence Solo branch office, 22-01-1916; BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 05-02-1916.

[112] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 05-02-1916.

ever expanding business. Retained profits in the form of large deposits held by different family members could not be relied upon, as these could be withdrawn at any moment. The recent affair of Kwik Bok Ay's 'theft' and subsequent flight had made this all too clear. Nevertheless, the old patriarch of the firm was not inclined to increase his share in the risks and simply preferred to receive his share of the profits. This had led Kwik Djoen Eng to the conclusion that the problem could only be solved by starting out on his own.

Kwik Djoen Eng's version of the story was contradicted by Kwik Bok Ke, who claimed that his father had actually supported an increase in the company's share capital provided that the salary and bonus of the director would be adjusted as well. Kwik Djoen Eng's participation in KHT earned him a very comfortable income, consisting of a substantial monthly salary, an annual bonus of one third of the profit and dividend payments since he owned one quarter of the company's stock. As a result, Kwik Djoen Eng pocketed more than half of KHT's annual profit. Such a disproportionately high reward was deemed inappropriate by Kwik Hong Biauw, who suggested that the bonus of the director would be cut substantially in exchange for a rise in salary. Kwik Djoen Eng refused and in the ensuing conflict Kwik Bok Ke sided with his father, who made the bonus question a precondition before considering a change in KHT's capital structure. When viewed in this perspective, the dispute was little more than a family quarrel regarding the distribution of profits which came to the fore after the record-breaking profit of 1914/1915 had earned Kwik Djoen Eng approximately two million guilders.[113]

The disagreement between the two cousins could not be resolved amicably and Kwik Djoen Eng's idea of establishing his own trading firm started to take shape. An improved outline of the new company stated that it would operate with a share capital of *f* 4,000,000, of which *f* 2,000,000 was initially placed. Kwik Djoen Eng was to be appointed Managing Director and could act independently without a board of commissioners and/or authorization by a general shareholder meeting.[114] However, the Handel Maatschappij Kwik Djoen Eng never came into being, because of an unexpected turn of events in the first week of March 1916. In a sudden change of heart, Kwik Hong Biauw decided to sell his interest in KHT to Kwik Djoen

[113] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 05-02-1916; BI/DJB 1409 Confidential and secret correspondence Solo branch office, 09-02-1916; *De Javasche Courant*, 08-04-1909.

[114] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 08-03-1916.

Eng. Following his father's example Kwik Bok Ke was likewise prepared to sell his interest, which offered Kwik Djoen Eng the opportunity to become the company's majority shareholder. This would give him total control over KHT and made the establishment of his own trading firm unnecessary. Kwik Djoen Eng did not hesitate and agreed to buy out his relatives.

On 9 March 1916 *f* 1,250,000 in banknotes of large denominations were sent from Semarang to Solo as payment for Kwik Hong Biauw, who would only accept cash in exchange for his shares. Upon hearing this, Byleveld reckoned that Kwik Djoen Eng had purchased the shares of Kwik Hong Biauw and Kwik Bok Ke at three times their nominal value. This was confirmed by DJB's agent in Solo who questioned Kwik Bok Ke about the unusual transfer and was told that the amount had indeed been used to pay for his father's interest in KHT. He also learned that Kwik Hong Biauw – called an eccentric (*zonderling*) by Byleveld – had not deposited the money at the bank, but chose to keep such a fortune in his own house.[115] Kwik Djoen Eng now owned 700 shares in KHT which made it possible to disregard the views of the other shareholders and act at his own discretion.[116] Of the remaining shares, 250 were in the hands of Kwik Tiauw Sin, the adolescent son of Kwik Bok Tjay (who had died on 14 May 1914),[117] while Kwik Bok Ay still possessed 50 shares. In 1919 Kwik Djoen Eng managed to purchase these shares against payment of *f* 450,000 (see Box 5.1 and 5.2).[118]

To bring the company structure in line with the current situation, KHT's articles of incorporation needed to be altered. On 18 May 1916, Kwik Djoen Eng called an extraordinary shareholder meeting in which he addressed the capital issue.

> Hal Maatschappij minta tamba kapitaal sama ganti statuten atawa aandeelhouder moestie kassi garantie perkara beli goelah.[119]
>
> The question is that the company demands more capital and has to change its articles of incorporation or the shareholders have to give [personal] guarantees in the matter of buying sugar.

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[115] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 13-03-1916; BI/DJB 1409 Confidential and secret correspondence Solo branch office, 11-03-1916.

[116] Formally, the shares of Kwik Hong Biauw and Kwik Bok Ke were handed over in three stages. As a result, Kwik Djoen Eng did not come into possession of all 450 shares concerned before 1917 (BI/DJB 1802; *De Javasche Courant*, 05-12-1916).

[117] BI/DJB 5184 Confidential and secret correspondence Semarang branch office, 16-05-1914.

[118] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 12-01-1921; BI/DJB 1802.

[119] *De Javasche Courant*, 05-12-1916.

According to Kwik Djoen Eng, banks and other business connections had urged him repeatedly to increase KHT's capital, because of the recent expansion of activities. He proposed to enlarge the company's share capital to *f* 4,000,000 which he would furnish himself. The first *f* 1,000,000 had already been deposited; the remaining shares had to be paid for in March 1917.[120] Reinforced by a strengthened financial basis, a new phase in the company's history was about to commence (see Box 5.2).

DJB monitored these events closely, but showed no concern about KHT's creditworthiness. Agent Byleveld continued to send the most reassuring messages to Batavia concerning the personal and business qualities of Kwik Djoen Eng. No critical remarks appear to have found their way to DJB's head office. The only more balanced view of Kwik Djoen Eng in these years is given by L. Von Hemert – acting Semarang agent in the absence of Byleveld. He characterized Kwik Djoen Eng in September 1916 when the latter requested to raise KHT's overdraft facilities temporarily from *f* 3,000,000 to a maximum of *f* 6,000,000 as follows:

> In short, it is my opinion that the Director Kwik Djoen Eng, the key figure around whom everything revolves, is an honest, decent, capable tradesman, who has managed to lead his company to great prosperity, [and] in every respect is more trustworthy than most of the other big Chinese sugar traders, both here as well as in Soerabaia. I am convinced that he will do his utmost at any given time to safeguard the Javasche Bank against any loss that could hurt it because of its relationship with him; he owes too much to the Bank. On the other hand Kwik Djoen Eng is more of a speculator than necessary, and he cannot be absolved either from the charge of suffering from a kind of megalomania in conducting enormous business. These qualities could endanger the Bank, especially if he is on the books for a debt of 5 to 6 million. However, I consider his possible death a bigger danger; his administration is hopeless and at his office people do not know anything; the brokers actually have to do all the administrative work for him as well. As it turns out Kwik Djoen Eng possesses, what one could call an extraordinary mind, in which all his business affairs are engraved. If that mind was to be no longer capable of thinking, then his creditors will encounter great chaos, which no one will be able to disentangle.[121]

However, no attention was paid to the alarming disorganisation of KHT's office management and the clear incompetence of its personnel.

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[120] *De Javasche Courant*, 05-12-1916.

[121] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 14-09-1916.

Having reported a profit of three to four million guilders in 1915, KHT was perceived as a financially sound enterprise. Besides, over the years the company had given no cause for complaint by faithfully paying its debts to DJB. War-time conditions also contributed to the disregard of KHT's poor administration. Kwik Djoen Eng realized that these exceptional circumstances offered great opportunities for highly speculative deals. With a war raging in Europe, there was a lot of Dutch investment capital available in the Netherlands Indies. The Dutch commercial banks were aware of the profit margins of the sugar trade and eager to invest their money on less conservative terms than before (Post 2002: 287–289).

Without meddlesome business partners or cautious bank employees to keep him in check, Kwik Djoen Eng started trading. Living up to his reputation as a speculative trader with a preference for large transactions, he bought enormous amounts of sugar of superior quality with credit provided by several banks. Kwik Djoen Eng was confident that the market price for Java sugar would continue to rise in 1916 on account of the high demand from Great Britain and France. In a conversation with Von Hemert he reasoned that the refineries in France were either destroyed or out of operation; in Great Britain they had been shut down as well or converted into production plants for the war industry. The beet sugar harvest was no longer depressing the price of sugar, whereas the Cuba harvest would not appear on the European market before March 1917. Java sugar would be in great demand and Kwik Djoen Eng was even prepared to turn down bids and accept huge amounts of sugar in storage in anticipation of sugar prices moving upwards.[122]

In an attempt to corner the Java sugar market KHT bought a total of nineteen million *picol* of sugar in 1916. Of this huge amount, eight million *picol* were purchased relatively cheaply from European sugar factories. The remaining eleven million *picol* were obtained 'second-hand', i.e. from Chinese sugar traders. Naturally, these traders charged higher prices, which including their own profit margin, and speculated on changing market conditions and price movements. Buying 'second-hand' was therefore more expensive and could easily lead to heavy losses if there was a fall in the sugar price. However, Kwik Djoen Eng's ambition was to buy enough sugar to be able to influence the market and determine

[122] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 21-09-1916.

the price level at which he would be willing to sell. To pull this off, he required the help of several banks since KHT's capital resources did not suffice. In November 1916 KHT had been advanced *f* 30,300,000 against sugar estimated to be worth over *f* 40,000,000. This amount was extended by the NIHB (*f* 14,000,000), the NHM (*f* 8,000,000), DJB (*f* 6,600,000), and the NIEM (*f* 1,700,000). In addition, DJB had also granted *f* 2,000,000 to KHT's Yogyakarta office secured by lien on other merchandise (Post 2002: 288).[123]

Kwik Djoen Eng tried to keep his competitors in the dark about his intentions as long as possible, but his largest competitors (Kian Gwan, Oei Tjoe, and the British sugar trader McNeill & Co.) found out and prevented his from buying up all available sugar.[124] KHT could not set the sugar price single-handedly, but performed exceptionally well. In 1916, the company's turnover in sugar was *f* 180,000,000 which enabled it to pay off its debts surprisingly fast. At the end of February 1917, KHT had sold over 90% of its sugar stock and had paid its creditors over *f* 8,000,000. It still owed the banks *f* 22,200,000, but with signed sales contracts payment was due upon delivery. Two months later KHT's debt had shrunk to *f* 9,500,000. Out of nineteen million *picol* of sugar bought, only 400,000 *picol* had been left unsold. By the end of May 1917 KHT had paid off nearly all of its sugar loans and only owed *f* 1,000,000 to the NIHB. KHT's total sugar debt had decreased from thirty million to one million guilders in about six months. Furthermore, it had repaid DJB *f* 1,000,000 of the Yogyakarta loan with the remainder expected to follow soon. DJB's agent in Semarang nevertheless persuaded Kwik Djoen Eng to personally guarantee DJB's claims against KHT as an additional safeguard. With the sharp increase in KHT's level of indebtedness, Byleveld considered Kwik Djoen Eng's personal guarantee indispensable for further extension of credit to KHT, although he admitted that the current situation did not require this measure. Without any

[123] The indebtedness of KHT to banks other than DJB owed to the company's increased need for credit, but also to the fact that sugar stored in godowns owned by a bank could only be pledged to that same bank. For lack of sufficient storage capacity KHT was forced to use godowns owned by the NHM and the NIHB which prevented it from pledging the sugar stored to DJB. The considerable expense involved in renting storage space which limited KHT's choices in meeting its demand for credit, was recognized by Kwik Djoen Eng as a serious handicap. He immediately strove to solve this problem by investing more than *f* 1,000,000 in several godowns of his own in 1917 (BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 26-11-1916, 11-07-1917; BI/DJB 1802).

[124] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 13-01-1917.

alternative Kwik Djoen Eng had to concede and the agreement was notarized on 7 April 1917.[125]

On 29 May 1917 Byleveld reported that KHT had sold its sugar stock of the previous years. Only 200,000 *picol* remained in store which would probably render a loss of *f* 2.50 per *picol*, or half a million guilders.[126] Unfortunately, the available sources do not reveal KHT's profit margin on the vast amount of sugar that had been marketed profitably. These margins had fluctuated sharply over the years. In 1911 for instance, KHT had earned a net profit of *f* 1.50 per *picol*; two years later the company had to satisfy itself with *f* 0.37$^5$ per *picol*.[127] Since 1916 was considered the most favourable year the Java sugar industry had ever known, the sugar trade must have enjoyed a high profit margin (Tio Poo Tjiang 1923: 37–38). On the other hand, Kwik Djoen Eng had purchased most of his sugar 'second-hand' and therefore relatively expensively, while his operating costs had run higher owing to increased storage and shipping fees. Still, even a conservative profit margin of *f* 0.50 per *picol* would have earned Kwik Djoen Eng ten million guilders. It seems likely that the actual margin was significantly higher.

By contrast, 1917 proved to be disastrous for the sugar trade. As a result of the war cargo space was scarce and had become expensive. Many traders were unable to export their produce and suffered from lack of sufficient storage. Most were unable to pay the sugar producers which led to a severe crisis in June 1917. The situation became so desperate that the Chinese sugar traders collectively decided to suspend all payments until 1 July. KHT and Kian Gwan were the only two Chinese firms to continue their business undisturbed as both had invested heavily in storage and shipping.[128] The European sugar producers decided to set up the Java

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[125] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 27-02-1917 and 08-05-1917.

[126] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 29-05-1917.

[127] BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 07-06-1913.

[128] In Surabaya, Cilacap, Yogyakarta and Semarang KHT had eight godowns. This investment had cost *f* 1,005,000, but enabled it to keep more than 1,700,000 *picol* of sugar in store. In additon, any excess storage capacity could be rented out against *f* 0.10 per *picol* per month. By chartering ships of the KPM, Java-China-Japan Lijn (JCJL) and Japanese shipping lines, KHT managed to provide adequate cargo space. In May 1918, Kwik Djoen Eng even contemplated to buy a Japanese ship of 2,300 tons for *f* 1,800,000. However, the necessary participation of DJB could not be secured and the deal was called off (BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 25-06-1917, 27-06-1917, 11-07-1917, and 04-05-1918; Post 2002: 288–289).

Suiker Vereeniging (JSV) in 1917 which was succeeded by the Vereenigde Javasuiker Producenten (VJSP) the following year ([Javasuiker] 1932–1933; Taselaar 1998: 99–108).[129] These organisations had to prevent a price fall of sugar and sell the stockpiled harvest of 1917 and the new harvest of 1918 against reasonable prices. Previously, the sugar factories had sold the bulk of their production independently to export traders in Java. If prices were considered too low, they had occasionally switched to exporting sugar themselves. The VJSP proved to be highly successful and came to control about 80% of the Java sugar production. A similar attempt in October 1918 to establish an organization of sugar exporters failed because of strong competition and perpetual conflict among the traders (Van der Eng 1993a: 193–195; Korthals Altes 1994: 79; Tio Poo Tjiang 1923: 39–45).

KHT appears to have survived the disastrous events of 1917 unscathed. The company had sufficient capital at its disposal to cover any loss. This is indicated by the dry remark of Byleveld that Kwik Djoen Eng would have no problem in paying *f* 1,100,000 to make up for a drop in sugar prices at the beginning of 1918. An examination of its books until 31 May 1918 led President Zeilinga of DJB to the conclusion that KHT's business affairs were looking "very promising".[130] 1919 turned out to be exceptionally profitable. Due to worldwide pent-up demand, sugar prices skyrocketed after the end of the First World War (Tio Poo Tjiang 1923: 47). Initially, KHT's total profit was estimated at *f* 14,000,000 with the Semarang office – the centre of the company's sugar business – contributing *f* 10,000,000 and the remaining ten offices 4,000,000. This amount was later adjusted downward to approximately *f* 12,000,000, but the end result was no less impressive. It enabled KHT to become less dependent on the banks and finance large business deals out of its own means. At this point KHT focused almost exclusively on the export of sugar. The production and retail of sugar in Java itself, which used to be KHT's main source of revenue, constituted only a minor part of the company's business.[131]

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[129] The first trade association within the sugar business had been founded in 1894 under the name Algemeen Syndicaat van Suikerfabrikanten in Nederlandsch-Indië (ASNI) and aimed to defend its interests by operating as a collective. In 1905 the ASNI had over 200 members and at the time only twenty sugar factories were left outside the fold. The First World War drew the sugar producers even closer together. In the Netherlands the Bond van Eigenaren van Nederlandsch-Indische Suikerondernemingen (BENISO) was established in 1917 in The Hague which concluded the integration process of the industry.

[130] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 04-05-1918 and 25-09-1918.

[131] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 17-07-1920; BI/DJB 103 No. 22: 142–143.

This export strategy seemed to pay off. In September 1920, KHT's total profit was calculated at *f* 8,000,000. The following month, however, saw a dramatic collapse of the sugar market, as it was realized that the worldwide demand for sugar had been vastly overestimated. Consequently, orders were withdrawn and with the growing stockpiles of sugar the price went down by more than 75% (Tio Poo Tjiang 1923: 47). KHT's estimated profit evaporated. In January 1921 it was established that the company had suffered a loss of about *f* 5,000,000. This was a large amount, but in the eyes of DJB it was a "very good result when compared to the losses of other large sugar traders running in the tens of millions." Thanks to its "inner strength" KHT was able to bear this loss, but decided to refrain from any speculative arrangements in the near future. For the time being, it limited itself to carrying out the regular orders of old and trusted clients like the China Sugar Refinery of Jardine, Matheson & Co. in Hong Kong. By acting as an intermediary in this particular instance, KHT only received about *f* 0.30 per *picol* of sugar. However, the commission earned on these kind of transactions was guaranteed.[132]

DJB attributed KHT's survival primarily to Kho Tjin Kiat, deputy manager in Semarang, who had shown great skill in dealing with the price fall on the sugar market. He had effectively run the business after Kwik Djoen Eng departed for China in October 1918. KHT's management had been officially entrusted to Kwik Han Tjwan – a cousin of Kwik Djoen Eng – who was named Director. According to Zeilinga, Kwik Han Tjwan had little knowledge of business and his contribution to KHT's affairs was of little value. Kho Tjin Kiat proved to be more competent and his performance was highly praised by DJB. On 28 January 1921 President and Directors of DJB expressed their complete satisfaction with Kho Tjin Kiat's management. According to them he had steered KHT out of the sugar crisis "with a lot more success than his boss Kwik Djoen Eng would have managed." The bank therefore frowned upon Kwik Djoen Eng's intention to appoint his 21-year old son Kwik Siang Kaw as 'vice-president' in charge of KHT (see Box 5.1). The latter had hardly any business experience and Kwik Djoen Eng himself admitted that his son was ill prepared and not yet ready for such a responsible position.

Kwik Djoen Eng was nevertheless determined to get rid of Kho Tjin Kiat whom he seemed to hold personally responsible for KHT's painful loss of

[132] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 20-12-1920, 06-01-1921 and 19-01-1921; BI/DJB 1514 Confidential correspondence from Batavia to Amsterdam, 12-01-1921 and 28-01-1921; BI/DJB 103 No. 22: 143.

*f* 5,000,000 and accused of all sorts of wrongdoings. DJB decided to intervene by warning the "choleric old gentleman" that all credit facilities would be cancelled if there was any change in KHT's current management. In the course of 1921 a compromise was reached, whereby Kwik Siang Kaw became the new head of the firm as of January 1921 with Kho Tjin Kiat in an advisory position. DJB's reaction resulted from a growing sense of insecurity as to KHT's financial resources. After the departure of Kwik Djoen Eng and the transfer of agent Byleveld to Bandung for health reasons, DJB found it more and more difficult to assess the company's position adequately. With Kwik Djoen Eng in China lines of communication were longer and less secure which made KHT's management less efficient. Important decisions took much longer as they required confirmation from Kwik Djoen Eng who rarely responded promptly. It was unclear who was answering to whom and confusion reigned when statements from Semarang were contradicted by messages from China. In addition, agent Reysenbach, the successor of Byleveld in Semarang, appeared less successful in extracting information about KHT, either from the company's representatives or from other sources. Where Byleveld had been able to 'force' KHT's management to discuss all relevant matters with him, Reysenbach seemed to lack the skills to keep himself informed about KHT as well as the Semarang trading community.[133]

DJB's concern was increased by the looming war profit tax assessment that KHT faced. No arrangements had been made so far despite DJB's insistence that sufficient funds be reserved for this purpose. Because of the enormous profits achieved during the war, the Dutch government had decided to levy a heavy war profit tax (*Oorlogswinstbelasting*) in the Netherlands and the Netherlands Indies. The system entailed an assessment of the so-called 'normal profit' – taken as the average profit attained over the years 1911–1913 – which was subsequently subtracted from the profit that the companies had realized during the war years. A positive outcome was taxed at 30%, unless it was shown that the difference could not be ascribed to favourable wartime conditions. The introduction of the war profit tax in the Netherlands Indies at the end of 1917 confronted the colonial administration with a daunting task which turned out to be more complicated and time-consuming than expected. A huge backlog was the

[133] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 17-07-1920, 03-01-1921, 12-01-1921, 27-07-1921 and 07-06-1922; BI/DJB 103 No. 22: 142-143; BI/DJB 1514 Confidential correspondence from Batavia to Amsterdam, 28-01-1921.

result (Kamerling 1982: 196–200).[134] In the case of KHT it took until October 1921 before it finally received a definite answer regarding its tax obligations.

According to the government tax office, KHT had earned an excess profit of *f* 30,000,000 during the period 1914–1919 which was taxable by 30%. In other words, the company suddenly owed the state the huge sum of *f* 9,000,000 in unpaid taxes. An unpleasant surprise especially when viewed in the light of KHT's serious loss in 1920. Unfortunately, the administration could not be persuaded to take this bad results into consideration and refused to comply with a request to diminish the assessment accordingly.[135] Since KHT did not dispute the numbers, the government's accountants must have made a fairly accurate estimate of the company's windfall profits during the war. Still, the company's current financial situation did not allow payment of such a large sum of money. After tough negotiations both parties managed to reach a compromise on 11 November 1921. The government agreed to an extension of payment until February 1922, after which KHT would start paying instalments of *f* 500,000. The authorities would only sanction this scheme after DJB had expressed its willingness to guarantee payment of these instalments upon their expiry date. Although this decision was perfectly justifiable as it ensured the undisturbed continuance of KHT's operations, it also illustrates how deeply DJB had become involved in the company's business affairs.[136]

Though KHT had failed to reserve any funds to pay for the impending profit tax, Kwik Djoen Eng was not unprepared. In order to avoid the possible seizure of KHT's assets by the government, he had signed over the greater part of the company's properties to his eldest son Kwik Siang Kaw some time before June 1921, only a few months after the latter had arrived in Java.[137] At the time, Kwik Djoen Eng resided in Hong Kong where he had established a new trading company under the name Ching Siong & Co., capitalized at $ 2,000,000. This transfer of assets came as a complete surprise to Byleveld, who had taken up his former position as DJB's agent

[134] The war profit tax earned the government *f* 238 million during the period 1916–1925 (Diehl 1993: 205).

[135] In June 1921 rumour had it, that KHT would have to pay a war profit tax of 'only' *f* 3,000,000 (BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 09-06-1921).

[136] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 20-12-1920, 18-08-1921, 01-10-1921, 30-12-1921, 03-02-1922.

[137] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 09-06-1921.

in Semarang in 1921 after Reysenbach was given extended sick leave. Byleveld seriously doubted whether Kwik Djoen Eng had acted wisely in establishing a new firm, but did not question his motives for the time being. However, it was an ominous sign that Byleveld – who had been on very good terms with Kwik Djoen Eng personally for many years – had to learn about the existence of Ching Siong & Co. from others which compelled him to complain to Kwik Siang Kaw about not being officially informed.[138]

*The Establishment of Ching Siong & Co.*

Unfortunately, for many years DJB failed to understand Kwik Djoen Eng's true intentions with regard to the establishment of Ching Siong & Co. Far from merely ensuring the undisturbed continuance of KHT's operations, Ching Siong & Co. was meant to allow further expansion of a business still regarded by Kwik Djoen Eng – if not by DJB – as his personal possession. Over the years he had kept a keen eye on developments unfolding outside the Netherlands Indies – especially within the triangle formed by Java, China, and Japan – and whenever events seemed to warrant participation he had not hesitated to explore their possibilities (Man-Houng Lin, 2001).

Born in Fujian, Kwik Djoen Eng maintained close cultural, economic and even political ties with China. Throughout his life, he carefully nurtured connections with his home area. He provided relief by shipping rice when his hometown was ravaged by a flood, donated money to build and maintain the lineage temple of the family in Tongan county and also established a primary school. His financial contributions earned him an official title as Salt Inspector under the Qing dynasty. As chairman of a fundraising committee at the time of the Chinese revolution, he raised 200,000 dollars abroad for which he was awarded the first patriotic medal from the Republican president and the fifth-rank performance medal from the Republican government.

As a Taiwanese tea merchant and Japanese national Kwik Djoen Eng also nurtured contacts with Taiwan and Japan. Shortly after the First World War he donated 300,000 Yuan to establish a Confucian association, entrusting Shibusawa Eiiji – a famous entrepreneur of Meiji Japan – with its disbursement. The Bank of Southern China, established in 1919 with the approval of the Japanese government, owed much to his creative

[138] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 22-06-1921, 30-12-1921; BI/DJB 1514 Confidential correspondence from Batavia to Amsterdam, 28-01-1921.

drive as well. The bank's predecessor – the so-called Bank of the Yellow Emperor – had been established by Kwik Djoen Eng some years earlier to promote the economy and trade of Southeast Asia and South China by combining capital from Taiwan, China and Southeast Asia. In 1916, the Japanese head of the Bank of Taiwan had already come to Kwik Djoen Eng to solicit his advice after the failure of the bank to make significant inroads in Southeast Asia. In 1918, Kwik Djoen Eng successfully negotiated on behalf of the Japanese with the Dutch government to abandon a proposed ban on the import of tea from Taiwan. For this result he later met the Taiwanese Governor-General in Taipei and was given a warm welcome by the Japanese Prime Minister and Baron Shibusawa Eiiji in Tokyo. The following year he received the fifth-rank merit medal from the Japanese and in 1928 he would be awarded the fourth-rank merit medal.[139]

From an economic point of view, Kwik Djoen Eng was most successful as a producer and exporter of Baozhong tea from Taiwan. His business endeavours outside Java centred around his factory in the city of Tatoitia, the undisputed centre for the processing and export of Taiwan tea. Here, he managed his Jinxiang tea company from a four-storey modern building lavishly decorated in Renaissance style. In the period 1916–1934 Kwik Djoen Eng's firm ranked first among all Baozhong tea exporting companies. Until the end of the 1920s his enterprise routinely handled about 20% of total exports, and would on occasion trade over a million kilograms of tea a year. Kwik Djoen Eng's success made him a man of stature and he was held in great esteem by Taiwan's leading gentry and business people.

In 1920 an advertisement was placed in the Taiwan Nichinichi Shinpo by renowned public figures calling for essays in commemoration of Kwik Djoen Eng's sixtieth birthday. At this point, Kwik Djoen Eng could look back upon a successful and distinguished career, which had made him a wealthy and respected man. He might have decided to lean back and enjoy other, more tranquil, activities. But Kwik Djoen Eng's occasional bouts of megalomania prevented this from happening. There would be no early retirement for him, since he was about to commence on the biggest business scheme he had ever concocted in his life. With the establishment of Ching Siong & Co. he attempted to transform himself from an old-style towkay into a modern tycoon.

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[139] Starting in 1897 the Japanese recognized eminent Taiwanese as *Shinsho* (gentlemen) and awarded them medals as part of a considerable effort to win the support of the Taiwanese elite (Roy 2003: 45).

In the eighteenth and early nineteenth centuries towkays had performed a very specific function in the migration of Chinese who were prepared to leave their mother country in search of a better life elsewhere. By acting as a travel guide cum labour broker the towkay provided an essential mediating service for which he was ideally suited by virtue of his specialist knowledge regarding labour market conditions and extensive network of personal connections. However, in the Netherlands Indies the meaning of the word shifted to become synonymous with 'Chinese (wholesale) trader'. Even today, the word towkay, or *tauke*(*h*) in Indonesian, is used in this sense. It translates into 'employer' or 'boss', but refers generally to 'a big Chinese businessman' personified by a well-to-do Chinese shop proprietor and/or head of a trading company.[140]

At the start of the 1920s Kwik Djoen Eng was very successful in the wholesesale trade of sugar and other agricultural commodities, but did not qualify yet as a modern tycoon: a businessman of extraordinary wealth and power. The Kwik Hoo Tong Handelmaatschappij lacked an enduring and efficient economic base, comparable to that of the Oei Tiong Ham concern. This was a strong well-integrated group of companies extending from sugar production and trading to warehousing, banking, and shipping (Dick 1993; Yoshihara Kunio 1989).

Unlike the legendary Oei Tiong Ham, Kwik Djoen Eng did not compete directly with modern European enterprises in plantation agriculture which made his position less independent. His shrewd sense of timing in purchase and sales orders could not compensate this serious disadvantage. Besides, unlike Oei Tiong Ham, he showed no awareness of the need to adopt Western techniques. He employed, for instance, no Dutch personnel or Dutch-trained Chinese with similar qualifications which would have enabled him to build a more efficient business administration. His disregard for DJB's repeated requests in this respect might have followed from an old-fashioned reverence for outdated customs. Or, Kwik Djoen Eng might have sensed the implications of a European system of administration, that could limit his room for manoeuvre by improved accountability to creditors like DJB (Mackie 1991: 83, 86–88; Panglaykim & Palmer 1989: 107–122).

Still, Kwik Djoen Eng was entirely capable of envisaging new and promising business perspectives. He certainly realized the potential of diversifying into business activities related to sugar trading. As seen he invested

[140] See Echols (1994), Mackie (1991: 83, 87–88), Oei Hong Kian (1998: 15, 305), Teeuw (1996).

heavily in storage facilities and contemplated purchasing a Japanese cargo steamer. Although there is no evidence that Kwik Djoen Eng ever wanted to operate his own shipping company, he carefully cultivated connections with Japanese freight companies, such as the Osaka Shipping Company, in the 1920s and early 1930s. This enabled him to ensure regular shipment of merchandise and also avoided becoming too dependent on the KPM and JCJL. He also kept investing in storage capacity and became a major shareholder in the Japanese Nanyo Wharehouse Company. Early 1930s he moved this company's headquarters from Singapore to the Netherlands Indies where it counted among the biggest warehouse companies (Man-Houng Lin 2001: 1005). However, Kwik Djoen Eng was not satisfied by merely extending his business activities into these related businesses. He aimed at vertical integration of his sugar trading business.

Among Chinese businessmen only the illustrious Oei Tiong Ham had so far accomplished a nearly complete vertical integration of his business empire. He owned five large, high-yielding sugar plantations – which operated the colony's most modern and efficient mills – and successfully marketed the sugar produced with the help of his own storage facilities (transformed into N.V. Midden-Java Veem, 1928 ), a bank (N.V. Bankvereeniging Oei Tiong Ham, 1906), a shipping company (Haep Eng Moh Steamship Coy. LTD, 1911) as well as a dense network of overseas offices.

Whether Kwik Djoen Eng followed Oei Tiong Ham's lead is uncertain, but he confirmed his enterprising nature by turning away from Java towards his country of origin. As early as 1909, he had decided to invest in sugar cane fields in China. He purchased land in his native Tongan county, introduced a new sugar cane shoot variety and even invited a Japanese technician to build a sugar refinery. Unfortunately, this first attempt at business integration proved to be ill-fated as it was opposed, for unknown reasons, by the local population. When confronted with a growing and well-organized protest, that was ultimately supported by the higher echelons of the state, Kwik Djoen Eng aborted his plans and discontinued the project (Man-Houng Lin 2001: 996–997).

A decade would pass before he tried again. In October 1918 Kwik Djoen Eng left Java to embark on an extended tour for about two years which took him to places such as Shanghai, Hong Kong, Taipei and Tokyo. Scouting for investment opportunities, he finally settled in Hong Kong where he focused on the capital-intensive sugar refining industry. This was a bold initiative considering the powerful and well-organized competition faced by newcomers. It was extremely difficult for anyone to hold his own against such formidable opponents as Butterfield & Swire and

Jardine, Matheson & Co. Operating the Taikoo Sugar Refinery and the smaller China Sugar Refinery, these two British companies controlled Hong Kong's sugar refining industry and effectively dominated China's sugar imports in conjunction with the Hongkong and Shanghai Banking Corporation (HSBC). In order to run their refineries efficiently and keep production costs low, Butterfield & Swire as well as Jardine, Matheson & Co. were highly dependent upon a stable supply of good-quality unrefined sugar. Java sugar, produced on large estates in great quantities of a reasonable and uniform quality, fulfilled these requirements. As a result, half to two-thirds of China's sugar import came from Java in the early twentieth century (Osterhammel 1982: 174; Van der Putten 2001: 31).

Having participated in this trade for many years, there can be no doubt that Kwik Djoen Eng was well informed about the Hong Kong sugar market. He must have realized that he would face strong opposition when competing with the big players. He aimed to accomplish this feat with a sweeping and aggressive move, much like his failed attempt to corner the Java sugar market in 1916. The establishment of Ching Siong & Co. was an integral part of far-reaching and very expensive plans to that effect. This explains why potentially meddlesome creditors like DJB were not informed. In the autumn of 1921 Kwik Djoen Eng had also established the Ching Siong Land Investment Co., and taken a share in the local Tay Doh Bank. This news had not yet reached DJB by 1922 which shows Kwik Djoen Eng's determination to hide his foreign business activities from unwanted scrutiny, at least for the time being.[141]

Apart from the fact that he was a prominent figure in the Netherlands Indies, people in Hong Kong had no idea who Kwik Djoen Eng actually was.[142] Being of medium height and dressing quite plainly in a Chinese shirt and Western white pants, he was not a very striking figure. With no credentials to show for he was considered a nobody, although it did not take long before rumours regarding his wealth started to spread. His personal fortune alone was said to be more than fifty million dollars. However, the fact that he had allegedly carried with him twenty million dollars in cash when first arriving in Hong Kong struck people most. This was a truly astounding amount when considering that the richest merchant in the

[141] Kwik Djoen Eng's business activities in Hong Kong throughout the 1920s completely eluded DJB and have left no trace in the company's archive. BI/DJB 1802.

[142] The following paragraphs are based upon a Hong Kong newspaper article dating from the early 1950s which recalls Kwik Djoen Eng arrival. A copy of this Chinese article, which does not state the name of the newspaper, was provided by courtesy of E. Weinberg and translated with the kind help of Kwee Hui Kian.

city at that time was estimated to be worth no more than ten million dollars. When asked about Kwik Djoen Eng's personal fortune in December 1921, Byleveld estimated it at more than ten million guilders, although he had to confess that he was far from sure. According to him, not even Kwik Siang Kaw could tell and so any estimate was of little value.[143] Whatever the exact amount, KHT had made Kwik Djoen Eng a millionaire. By all counts, he was extremely wealthy.

It must have been inconceivable for someone like Kwik Djoen Eng not to put his capital to profitable use. However, in view of the war profit legislation of 1917, he could ill afford conspicuous capital outlays within the Netherlands Indies. After a long search the North Point reclamation works in the Hong Kong harbour area seemed to offer just the opportunity he had sought. Making use of the British colonial authorities' interest in expanding the harbour through land reclamation and the construction of quay walls, Kwik Djoen Eng bought a huge plot of land close to the existing port. A recent survey had indicated that it was ideally suited for deep-sea shipping and could accommodate ships of up to 5,000 tons once the right port facilities were in place. Local businessmen had shown no interest so far, as it would require huge investments with no immediate returns, and could only be exploited with the explicit consent and cooperation of the government.

Kwik Djoen Eng immediately recognized the great potential of the area's strategic location. In his opinion the site was perfect for a modern sugar factory with the available fresh water pools, storage and port facilities. Wasting no time, he ordered expensive machinery and equipment despite the fact that the sale of the land had not yet been approved by the authorities. Kwik Djoen Eng was confident that the paperwork would be no problem. Wanting to move ahead fast, he was prepared to pay a legal firm $ 200,000 (Hong Kong currency) if they could speed things up and settle the procedures required to purchase land within a week. After obtaining government permission in 1922 Kwik Djoen Eng closed an agreement with the Koninklijke Nederlandsche Maatschappij van Havenwerken (KNMH) on 8 August 1922 to study the existing plans for the North Point reclamation works.[144] This resulted in a contract with the Hong Kong Public Works Department for the reclamation of land and the construction of a quay

[143] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 30-12-1921.

[144] I am grateful to F.P. van der Putten for providing me with information regarding Kwik Djoen Eng's land development project. See also Van der Putten (2001: 167).

wall to be financed by Kwik Djoen Eng through his Ching Siong Land Investment Company.[145] The KNMH agreed to carry out this project for *f* 884,000 and started work in 1924. It would take until 1927 before the quay wall was finished and the project completed. In the meantime, Kwik Djoen Eng had built several sugar godowns as well as modern unloading facilities.

Strangely, hardly any progress was made after 1927. Kwik Djoen Eng's ultimate goal of establishing a large sugar refinery enabling him to compete with Butterfield & Swire and Jardine, Matheson & Co. was never realized. In addition, profitable exploitation of the quay at North Point turned out to be difficult.[146] The only company to make use of Kwik Djoen Eng's pet project and facilities was Ching Siong & Co. whenever it received sugar from Java that had been shipped by KHT. It remains unclear why Kwik Djoen Eng never proceeded with the construction of the refinery. In Hong Kong the word on the street was that his competitors (Chinese and Western) learnt of his intentions through the indiscretion or possibly betrayal of one of his construction engineers. How they conspired against him remains unknown but they successfully managed to thwart his plans. However, it could very well be that his financial resources had been drained. The reclamation of land, the construction of the quay and other projects had been going on for years and must have cost an absolute fortune. Besides, a considerable part of his capital was tied down in companies like the Tae Doh Bank, KHT and his tea firm in Taiwan. Last but not least, he was involved in other plans as well, charitable or otherwise, which must have diverted his attention.[147] Whatever the reason(s), in the

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[145] BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 04-04-1925, 14-12-1927.

[146] BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 07-12-1927. See BI/DJB 5188, 04-12-1928 for unsuccessful negotiations regarding the finished quay wall between the Ching Siong Land Investment Co. and the Robert Dollar Co. This shipping company had expressed serious interest in a 20-year lease with sales option, but would not pay $ 260,000 (Hong Kong currency) per month. In 1930 negotiations with the Chinese Bankers Association in Shanghai to sell the quay wall also failed. See also BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 17-10-1930, 31-10-1930, 28-11-1930, 04-12-1930, 06-12-1930, 10-12-1930, 16-01-1931.

[147] For instance, Kwik Djoen Eng was actively involved in the Hong Kong Fujian Chamber of Commerce. Originally a lodging house for sojourning merchants from Fujian, it was established in 1916 to represent the Fujian merchant community in Hong Kong. Dominated by *Hokkien* it aimed to cover all spheres of activities including businesses, social activities, disputes, protection of the "Fujian people resident in the colony of Hong Kong" as well as their activities connected with "the Fujian district, Fujian province, and China, whether residing in China or any other part of the world." In 1929 Kwik Djoen Eng became an honourable committee member of the Fujian Chamber of Commerce, followed by his appointment as honourable chairman the year after (Kuo Huey-Ying 2005: 12–14).

late 1920s it became clear that Kwik Djoen Eng had not managed the transition from old-style towkay to modern tycoon.

*KHT's Reorganization and Downfall*

DJB did not question Kwik Djoen Eng's investment strategy, since the bank had been left completely in the dark. It must be said that DJB showed surprisingly little interest in finding out more about, for instance, Ching Siong & Co. and the rationale behind its foundation. Concerned chiefly with KHT's sugar position, the bank focused on any outstanding credit and, above all, on the regular and swift reimbursement of these loans. With Kwik Djoen Eng out of reach his personal guarantee with regard to KHT's debts of 1917 had become less convincing. DJB's agent in Semarang therefore wanted to improve the bank's position vis-à-vis KHT.

In a letter dated 30 December 1921, Byleveld mentioned the possibility of consolidating all of Kwik Djoen Eng's real estate into a building society. Less than half a year later, on 13 June 1922, the N.V. Handel- en Bouw-Maatschappij Frigga was established, incorporating all real estate owned by Kwik Djoen Eng, Kwik Siang Kaw and KHT. Consisting of land, houses and, most importantly, KHT's godowns, it was optimistically valued by Byleveld at *f* 7,000,000. At the inaugural meeting it was agreed that Kwik Djoen Eng, owner of Frigga's capital stock of *f* 100,000, would act as the company's sole Managing Director. It was decided that the building society would guarantee all debts of KHT to DJB. Consequently, Kwik Djoen Eng's personal guarantee was cancelled. However, in order to prevent Frigga's real estate from being sold without the bank's approval, DJB's agent in Semarang became a permanent member of Frigga's Board of Directors.[148]

Despite these precautionary measures DJB's management in Batavia was not completely reassured. Since the disastrous results of 1920 KHT's financial position had gradually worsened. While suffering further losses with regard to its sugar business, substantial amounts of money were misdirected into ill-considered projects unrelated to the company's core business, such as the building of numerous houses in Surabaya.[149] With capital

[148] BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 30-12-1921, 15-06-1922, 16-06-1922, 12-12-1922; BI/DJB 3354 Folder 29.

[149] The capital required for the construction of these houses was provided by KHT's Surabaya office at the request of the Tay Doh Bank and Ching Siong & Co. in Hong Kong. Kwik Bok Gwan – an adopted son of Kwik Djoen Eng – saw to all transactions, since he was in charge of KHT's agency in Surabaya, as well as the registered owner of twenty three so-called building societies in the city (BI/DJB 3354 Folder 29: 7–9).

outside the country, tied down in real estate or otherwise inaccessible, KHT experienced a growing shortage of liquid assets which became apparent after 1922. DJB was often obliged to grant KHT higher advances than advisable considering the estimated market value of the merchandise pledged to the bank. Moreover, the intricate financial relationship between the different companies controlled by Kwik Djoen Eng (KHT, Frigga, Ching Siong & Co., Ching Siong Land Investment Co., Tae Doh Bank) made it impossible for DJB to exercise control or extract any reliable information. This situation was complicated, in the eyes of President and Directors, by an inadequate office administration and a highly insufficient accounting system.[150] Even Byleveld had to concede in June 1923 that the administration was "not in very good shape" (*niet zo puik in orde*). All decisions were still made by Kwik Djoen Eng in Hong Kong, which required consultation and caused frequent delay. Not even 'vice-president' Kwik Siang Kaw could operate independently, and in his absence no one was qualified to sign.[151]

The state of KHT's affairs compelled DJB to take additional measures to better safeguard its interests. Byleveld was told on 21 March 1923 to persuade Kwik Djoen Eng to mortgage all real estate possessed by Frigga and the Surabaya building societies as collateral for the advances granted to KHT. After extensive deliberation, involving some subtle delaying tactics, Kwik Djoen Eng agreed. In January 1924 all arrangements were finally concluded, giving DJB an additional security of approximately *f* 2,500,000.[152] A comforting amount considering KHT's volume of trade and need for credit. During the period 1922–1924, the company sent about 1,5 million *picol* of sugar annually to Hong Kong alone, while sugar continued to be sold to countries like British India, Burma, Straits Settlements the United States and Great Britain.[153]

In September 1924 Byleveld was at long last replaced by P.J.W. Noorduyn as DJB's representative in Semarang. This change was accompanied by a different evaluation of KHT, its management and its debt position. Noorduyn strongly opposed the preferential treatment KHT had received

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150 BI/DJB 1802.

151 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 20-06-1923.

152 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 05-04-1923, 26-01-1924; BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 28-12-1926, 12-01-1927; BI/DJB 107 No. 11: 135.

153 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 20-09-1924.

over the years and was determined to reorganize the relationship. He considered the company's overdraft facilities too generous, and the general attitude of the bank towards KHT far too lenient. Shocked by the fact that the company was chronically overdrawn, he emphasized the need to reduce DJB's exposure, albeit in a gradual fashion in order not to drive KHT straight into the hands of the competition.[154] DJB's strict enforcement of the regulations did not go unnoticed and although both parties tried to maintain a cordial relationship, it soon became apparent that DJB's change in attitude had caused serious damage.[155]

On 1 May 1925 Noorduyn was informed by Kwik Siang Kaw that his father had reached an agreement with the NHM in Hong Kong to finance the sugar business of Ching Siong & Co. Any arrangements with DJB to that effect were to be cancelled. Caught by surprise, Noorduyn immediately phoned President Trip of DJB, explaining to him that this would cost DJB 70% of its business dealings with KHT. Later, Noorduyn would write to Trip that the NHM had probably convinced Kwik Djoen Eng, not so much by offering better credit terms, but by hinting at the possibility of substantially overdrawing his account without penalty. This appeared all the more likely, since the NHM agent in Hong Kong was a "very close personal friend" of Kwik Djoen Eng and – as Kwik Siang Kaw put it – "absolutely convinced of the excellent standing of Ching Siong & Co." The agent in Hong Kong had only needed to wait for the right moment to approach Kwik Djoen Eng and telling him that the NHM was willing to accommodate his wishes by adopting a liberal credit policy.

In Noorduyn's opinion this moment occurred with Kwik Siang Kaw's arrival in Hong Kong late January 1925. He must have told his father the latest news – including his last-minute visit to Trip in Batavia, who had confirmed the bank's new policy – and discussed with him the future prospects of KHT's relationship with DJB. Since Kwik Djoen Eng was short-tempered and keen on a bargain, his decision to accept NHM's offer was predictable. Though Kwik Siang Kaw might have had his doubts, he could only follow his father's wishes. Upon his return in Semarang he appeared ill at ease. Noorduyn attributed this to his embarrassment at having to (partially) break off a long-standing relationship and to the fact that KHT's administration had come to depend heavily upon his agency's

154 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-09-1924, 17-11-1924.

155 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 06-01-1925.

bookkeeping. Nevertheless, within a week the administrative transfer of KHT's sugar dealings with Ching Siong & Co. had been all but completed.[156]

KHT's involvement in the Java sugar trade had become largely invisible to DJB's management. Now, it was even more difficult to ascertain whether KHT's profits were being used to pay off the company's debts or whether they were remitted to Hong Kong and used by, for instance, the Ching Siong Land Development Co. to finance the quay wall under construction. In the meanwhile KHT remained an important client to DJB. In 1926 it was still allowed a remarkable total maximum advance of *f* 25,000,000 against sugar, rice, and other products such as nuts and maize.[157] KHT was a large sugar trader with a high turnover, thanks to a wide network of branch offices, but with a questionably low profit margin which left it vulnerable to price fluctuations.[158]

Table 5.9 below shows the minimum quantities of sugar required to keep KHT's offices running throughout the year. According to a statement by KHT's head office in Semarang on 11 July 1927, these amounts were necessary to meet local demand and to enable distribution among the various territories. It was stated explicitly that the figures cited were not speculative but real. Based upon past business experience, they should therefore give an accurate picture of KHT's annual sugar business.

According to these numbers, KHT had to buy and sell at least 200,000 tons of unrefined sugar per year to run a sound operation. The actual figures for 1927 support this assertion. 228,738 tons of sugar were bought against total sales of 222,212 tons in mid October 1927.[159] In 1923 the company had shipped only 125,000 tons which seems to suggest that KHT grew rapidly throughout the 1920s (De Vries 1929: 195). With one third of total sales China constituted an important component of KHT's business. All sugar destined for this country, and most likely for some other territories as well, was sold to Ching Siong & Co. which took care of delivery and further transhipment. KHT did not require forward payment for these

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156 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 16-01-1925, 02-05-1925, 06-05-1925; BI/Indover 445 Folder B; NA/KJCJL 40.

157 BI/DJB 3042 Memorie van Overgave agentschap Semarang, 28-05-1926.

158 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 28-12-1926.

159 These quantities represented a value of *f* 39,443,000 and *f* 38,445,000 respectively, leaving a deficit of close to *f* 1,000,000. The sale of the remaining 6,526 tons of sugar ought to make up for the difference, although the current market rate made this unfeasible in the eyes of DJB's agent in Semarang (BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 24-10-1927).

Table 5.9. Average annual sugar turnover of KHT in 1927 (divided by territory, in metric tons).

| | | | |
|---|---|---|---|
| Semarang | 12,000 | Java | 49,000 |
| Djocja | 9,500 | | |
| Solo | 7,500 | | |
| Cheribon | 8,000 | | |
| Batavia | 6,000 | | |
| Soerabaia | 6,000 | | |
| Singapore | 8,500 | | |
| Hongkong | 20,000 | China | 67,000 |
| Amoy (Swatow included) | 7,000 | | |
| Shanghai (Hankow & Tientsin included) | 40,000 | | |
| | Total 124,500 | | |
| Europe | varying between 75,000 and 150,000 | | |
| British India | | | |

Source: BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 11-07-1927.

shipments from Ching Siong & Co. and customarily charged the latter's debt account. DJB was very critical of this procedure since it left payment to the goodwill of Ching Siong & Co. and thus to the discretion of Kwik Djoen Eng.[160]

With sugar prices going down after 1925, KHT reported a small loss of about *f* 100,000 in 1926. Initially, the results for 1927 seemed to make up for this – showing a profit of *f* 400,000 halfway through the year – but with a depressed sugar market at hand KHT was ultimately confronted with a loss of similar proportions.[161] Adding to the company's worries was a staggering tax debt of *f* 9,676,887.67. Payment had been successfully stalled in the past, but the authorities grew increasingly impatient. This debt burden – *f* 8,039,775.83 in war profit tax and *f* 1,637,111.84 in income tax – required urgent settlement and could no longer be neglected. Fortunately,

[160] BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 07-12-1927.

[161] BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 14-07-1927, 24-10-1927, 02-06-1928.

the government was prepared to forget about the claim in exchange for payment of a lump-sum. Initially, a pay-off was demanded of half a million guilders, but after tough negotiations the tax inspector settled for immediate payment of *f* 277,000 and complete reimbursement of income tax in monthly instalments of *f* 5,000. This agreement was reached in May 1928. Once again DJB played its part on behalf of KHT, because the deal only came through after the bank declared itself prepared to guarantee the *f* 277,000 transfer.[162]

Unpleasant circumstances did not give Kwik Djoen Eng much time to enjoy his victory. On 29 February 1928, just before the tax settlement, Kwik Siang Kaw died after a short illness. This left KHT in a state of disarray and made Kwik Djoen Eng's presence in Java imperative. With the future of his company at stake, he booked passage on a ship to Batavia where he arrived on 15 March.[163] Before travelling to Semarang, Kwik Djoen Eng first discussed KHT's financial position with the President and Directors of DJB.

The report of this meeting shows the company's distressing financial situation and emphasizes the virtual absence of liquid assets. Kwik Djoen Eng attributed these severe cash flow problems to the excessive number of outstanding claims among Chinese import clients which he felt could only be recovered "very gradually". According to him, it would take three years to retrieve all of KHT's outstanding credit in Java's interior which he estimated to be *f* 6,000,000. Given earlier statements by Kwik Siang Kaw, the President and Directors of DJB considered *f* 4,000,000 closer to the truth, although this did not change the fact that long-term credit arrangements tied up too much of KHT's capital. As a result, the company was frequently left with no other choice but to overdraw its account. DJB was uncomfortable with this recurring situation which had become routine and appeared uncontrollable. At the time of Kwik Djoen Eng's visit KHT's account was heavily overdrawn to the amount of *f* 884,000.[164]

Kwik Djoen Eng was told to restrict the overdraft facilities granted to KHT's retailers in Central Java. The DJB agents in Yogyakarta, Solo, and

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[162] BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 28-12-1926, 07-01-1928, 22-05-1928, 02-06-1928, 25-08-1929.

[163] BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-02-1928, 16-03-1928.

[164] BI/DJB 1541 Confidential correspondence from Batavia to Amsterdam, 19-03-1928; BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-03-1928; BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 08-12-1928.

Cirebon were given clear instructions to see to this,[165] but ordered to proceed cautiously for fear of disrupting KHT's daily operations too much. F.H. Westerling, who had succeeded Noorduyn as DJB's agent in Semarang in May 1926, did not need to be convinced of the importance of a careful approach. Having watched KHT's business operations closely for two years, he made the following observation with regard to the company's credit policy.

> The outstanding amount owed by debtors [to KHT] is considered by Kwik Djoen Eng as permanent working capital [...] advances, that are never repaid, but are written off annually. These debtors are bound hand and foot to KHT and through the circulation of goods and products large profits are made [...], especially in times of economic prosperity among the indigenous population, which is the case at present. Should KHT have to liquidate its affairs,[...] these advances, that run in the millions, would undoubtedly be lost.[166]

When supervising the reorganization of KHT's affairs, Westerling told the other agents not to accept new debtors and make sure that the existing debt was slowly reduced.[167] To make sure that his instructions would be understood, he gave an example of the procedure to be followed in the case of credit sales with a running period of three months.

> Chinese A buys on 1 January 1928 *f* 5,000 worth of tea to be paid for on 1 April. On 1 April he pays *f* 5,000, but at the same time asks for new goods. From now on, he will not be allowed, as before, to receive another *f* 5,000 or more in goods, but only less e.g. *f* 4,000, so that [...] the outstanding amount is gradually reduced.[168]

With an improved cash flow KHT's chronically overdrawn account would hopefully become a thing of the past. Notwithstanding the fact that the amounts in question were amply covered by the *f* 2,500,000 of mortgaged

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[165] Under the existing credit arrangements, KHT's stock acted as security and was stored in godowns which could not be accessed without prior authorization from DJB.

[166] BI/DJB 5188 Confidential correspondence from Semarang to Batavia, 14-07-1928.

[167] This strategy appears to have worked. On 10 December 1928, for example, the Solo office extended credit to the amount of *f* 697,000. Three and a half years later, on 31 May 1932, the same office had managed to reduce its outstanding credit by 42% to *f* 404,000. In the same period, the Yogyakarta office saw its total outstanding credit decrease by 45% from *f* 529,000 to *f* 293,000. However, these reductions could only partially solve KHT's liquidity problems, since the company's capital was primarily tied up in its export activities (BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 04-12-1928, 29-12-1928; BI/DJB 1860).

[168] BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-03-1928.

real estate administered by Frigga and the Surabaya building societies, DJB insisted on repayment of any surplus debt. As it was stated, the existence of surplus debt partly invalidated the purpose of having *f* 2,500,000 act as "additional security in case of unforeseen circumstances".[169]

The President and Directors also hoped that a less generous credit policy would curb Kwik Djoen Eng's tendency to pursue business on a scale disproportionate to the amount of capital available. This applied not only to his highly speculative sugar dealings, but also to several representatives of KHT, who had started to import textiles without asking and/or receiving approval from the KHT head office in Semarang. Westerling pointed out that this was very undesirable. KHT should refrain from such experiments and concern itself solely with its traditional lines of business: i.e. sugar, tea, and rice, supplemented by products such as soy beans, coconut oil, and flour.[170]

Traditionally, the trade in these products had rendered a nice profit. In Westerling's opinion this was confirmed by the annual results of KHT's offices in Yogyakarta, Solo and Cirebon, which had closed their books in 1928 with a combined profit of *f* 450,000. This result led him to conclude that KHT's core business was essentially healthy, although the company reported a net loss of *f* 220,000 in 1928. Westerling supposed that the registered profits were cancelled out in Semarang because of high expenses, loss-making speculative transactions, or money transfers.[171] In his words: "There is a leak somewhere, but one can only guess how and where it arises."[172]

He suspected that profits were withdrawn from the company and most likely moved to China where, for obvious reasons, they were hidden from DJB.[173] This did not constitute an immediate problem, since Kwik Djoen Eng's standing within China still enabled him to obtain large sums of money on short term if necessary. Nevertheless, Westerling rightfully concluded that KHT's fortunes had come to depend completely upon the

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169 Underlined in the original. BI/DJB 111 No. 2: 8.

170 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-03-1928, 28-07-1928.

171 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-12-1928; BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 15-03-1929.

172 Ibidem; BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-12-1928.

173 From September 1928 onwards, for instance, KHT had repeatedly used the NIHB in Semarang to transfer more than $ 500,000 to the Singapore branche of Ching Siong & Co. According to the NIHB office in Singapore no business transactions seemed to justify these transfers (BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 04-12-1928,13-12-1928, 18-12-1928).

creditworthiness of Kwik Djoen Eng in China. This made DJB's present situation uncomfortable. Under these circumstances it had no reliable means of adequately assessing the latter's financial position. Besides, Kwik Djoen Eng had shown himself increasingly recalcitrant, if not untrustworthy. By buying almost 400,000 *picol* of sugar 'second hand' in the last few months of 1928, he had broken his promise to limit speculative sugar deals and decrease the amount of sugar in stock. Furthermore, KHT's account was still overdrawn and this had substantially increased since August. In addition, Kwik Djoen Eng no longer supported the adoption of a European book-keeping system subject to regular accountant's control.[174]

Complaining that DJB's demands were disregarded, Westerling suggested a different course:

> I therefore ask myself whether DJB should concern itself with KHT's business and make demands that will not be honoured anyway. Is it not more desirable to limit the extension of credit to KHT in such a way that DJB knows what to expect in any event, and to end the relationship should Kwik Djoen Eng fail to honour his promises?[175]

He proposed a meeting with Kwik Djoen Eng in Batavia in order to make definitive arrangements regarding KHT's overdrawn account and, if possible, solve DJB's risk exposure in this particular case.[176] President and Directors took Westerling's worries seriously and on 1 February 1929 Kwik Djoen Eng attended a meeting with, among others, President Trip and agent Westerling at DJB's head office.[177] Also present were Kwik Djoen Eng's third son Kwik Siang Ling, the intended successor to the deceased Kwik Siang Kaw, and – surprisingly – DJB's former agent J.C. Byleveld, who had been appointed commissioner of KHT in August 1928, and now acted as Kwik Djoen Eng's personal advisor.[178] During the ensuing discussions Kwik Djoen Eng not only promised to pay back the large overdraft, but also gave his word that he would redeem all advances granted to KHT against produce by the end of May. Apparently he had enough of DJB

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[174] BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 13-06-1928, 04-12-1928.

[175] BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 04-12-1928.

[176] BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 04-12-1928.

[177] BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 08-12-1928, 05-02-1928; BI/DJB 111 No. 45: 661, 667-675.

[178] BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 13-06-1928, 03-08-1928, 04-08-1928, 14-08-1928.

meddling in his affairs and, as he had told Westerling personally a few weeks before, wished to be relieved of any obligation to provide the bank with information.

This proposition must have been music to the ears of Trip and Westerling. DJB was more than willing to cooperate and even granted Kwik Djoen Eng upon his request an additional *f* 400,000 for two months, provided that he and his sons personally guaranteed KHT's liabilities to the bank. Kwik Djoen Eng – scheduled to leave for Hong Kong on 22 February to take care of other business interests, especially his harbour plans – also committed himself to return to Java immediately upon DJB's request. In the meanwhile commissioner Byleveld would act as a contact between DJB and KHT until the deal had been settled for which purpose he would stay in Semarang until the beginning of June. A few days after, President and Directors told Westerling, that they would reconsider the relationship with KHT after the complete redemption of its debt, whether it could be continued, and if so, on what terms.

As it turned out, Kwik Djoen Eng kept his word and managed to repay approximately *f* 5,000,000 of outstanding debt (mainly advances against produce) by selling most of KHT's stock.[179] On 31 May 1929, KHT owed DJB only *f* 200,000 and both parties entered into negotiations to discuss a new credit arrangement.[180] DJB was once again prepared to advance money against produce, although KHT's privilege of receiving the estimated value of basically an unlimited amount of sugar was cancelled. From now on, only 90% of the estimated value would be advanced with a maximum of *f* 5,000,000. Furthermore, overdraft facilities were not negotiable, contrary to the past when KHT had overdrawn its account with *f* 600,000. Since KHT's diminished credit no longer required the same additional security, DJB was willing to relinquish some of the mortgaged real estate and settle for *f* 1,000,000 instead. In combination with the 10% already negotiated, this provided a sufficient safety margin. In the end, these conditions were accepted by Kwik Djoen Eng and on 19 June 1929 a new credit arrangement between KHT and DJB was put in place.

The new settlement was valid until 31 May 1930 which gave KHT about a year to demonstrate its good intentions and improve its financial

[179] Kwik Djoen Eng also had to mortgage the premises of yet another building society in Surabaya, which had not been included in the earlier agreements with DJB. Furthermore, remittances were received from Hong Kong whereas some outstanding debts were collected as well (BI/DJB 1802).

[180] BI/DJB 112 No. 11: 92, 97–101; BI/DJB 112 No. 12: 103–104; BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 07-06-1929, 1-06-1929, 21-06-1929.

position. Unfortunately, this was prevented by the outbreak of a worldwide economic crisis in October 1929. The resulting economic contraction led to declining orders and investment and caused a severe slump in business within months of the New York Stock Exchange collapse. KHT experienced the repercussions as its debtors failed to honour their commitments which severely affected the company's cash flow. In May 1930 DJB's agent in Yogyakarta wrote that the overdraft facilities of KHT's branch office were completely utilized at all times.[181] A few weeks earlier, J.C. van Waveren – DJB's new agent in Semarang – had written that KHT had exhausted its liquid assets.[182] Admittedly, the new Director – Kwik Siang Ling – turned out to be willing and sincerely tried to make ends meet by firing incompetent managers, closing down loss-making offices, concentrating on debt collection, and boosting retail sales. But, in Van Waveren's view, Kwik Siang Ling could not stand up to his father in Hong Kong whose word remained law.

Despite KHT's precarious financial situation Kwik Djoen Eng persisted in conducting speculative sugar deals, drawing on the debt account of Ching Siong & Co. at KHT. These transactions drained KHT's cash reserves even further, because remittances from Hong Kong were irregular and often insufficient. In addition, on more than one occasion the company was instructed by Kwik Djoen Eng to transfer considerable amounts of money to China and Taiwan which naturally added to its severe liquidity problems. To make matters worse, KHT was also confronted with the financial consequences of a lost law suit, that would add up to *f* 132,000.[183]

These negative developments diminished DJB's confidence in the viability of KHT. In 1930 the maximum amount to be advanced to KHT was

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[181] BI/DJB 3042 Memorie van Overgave agentschap Yogyakarta, 21-05-1930.

[182] BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 05-03-1930, 12-03-1930, 05-05-1930, 09-05-1930, 15-05-1930, 30-05-1930, 04-06-1930; BI/DJB 1802.

[183] This law suit dated back to February 1920 and concerned a shipment of KHT sugar to Bombay which had been refused on account of being overdue. The London-based trading firm Finlay, who had purchased the sugar from KHT and resold it to several British Indian firms, accused KHT of breaching its delivery contract. As a result, Finlay had been forced to take back 250 tons of sugar, which could only be sold on the 'open' market against a loss of approximately *f* 108,000. Kwik Djoen Eng contested this account and stubbornly refused to pay Finlay the difference. Between 1922 and 1929 both parties saw each other repeatedly in court over this matter, but after appealing four times without success KHT's lawyers advised against the continuation of legal proceedings. Next to the original amount KHT also had to pay the legal costs which over the years had accumulated to *f* 24,000 (BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 06-07-1931; BI/DJB 5188, 04-12-1928, 04-09-1929).

therefore adjusted from *f* 5,000,000 to *f* 1,250,000 on the basis of 80% instead of 90% of the estimated product value.[184] Again, Van Waveren tried to persuade Kwik Siang Ling and Kwik Siang Go[185] – the second son of Kwik Djoen Eng and Deputy Director of Ching Siong & Co. – to focus on KHT's core business: i.e. the trade in tea from Taiwan, the production of lump sugar, the exploitation of the company's rice and *gaplek* (dried cassava) factories in Wonogiri and Solo, and the retail trade centred around Solo and Yogayakarta. Furthermore, to alleviate KHT's cash problems, he urged them to sell out of stock as much as possible and stop trading in unprofitable products like tapioca, gunny bags, vermicelli, coffee, and textiles.[186] The following year saw no improvement however. KHT continued to suffer financial difficulties and saw no chance to relieve its cash shortage. In the middle of 1931 DJB reckoned that *f* 450,000 of outstanding credit in Java's interior should be considered lost. The bank counted itself lucky to have reduced its risk exposure the years before.[187]

Because of the lasting economic crisis, KHT's outlook was bleak. Kwik Djoen Eng's repeated promises to remit money proved meaningless and it became evident that no immediate relief could be expected from China. At this point, Van Waveren characterized KHT as "nothing but an empty shell"; a subsidiary company of DJB under Chinese management.[188] His recommendation to restrict credit facilities even more was followed in July 1931. The maximum amount to be advanced was lowered to *f* 630,000 with a safety margin of 30% instead of 20%.[189] In the following period KHT's financial position deteriorated monthly. On 5 December 1931, Van Waveren learned that Ching Siong & Co. had incurred heavy losses and could no longer pay its bills. Kwik Siang Ling himself acknowledged that the company was on the verge of bankruptcy. KHT was indebted to the Chartered Bank for about *f* 300,000 because of business arrangements it had signed previously to accommodate Ching Siong & Co.[190] Luckily,

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184 BI/DJB 112 No. 53: 482; BI/DJB 113 No. 22: 286–287.

185 BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 17-10-1930.

186 BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 15-05-1930, 21-08-1930.

187 BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 06-07-1931.

188 BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 15-07-1931.

189 BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 18-07-1931.

190 BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 05-12-1931, 09-12-1931; BI/DJB 1802.

according to Kwik Siang Ling, most of KHT's ties with Ching Siong & Co. had been severed in July 1931. Van Waveren asserted that had Kwik Siang Ling not annulled all of Ching Siong & Co's. old claims against KHT, the company would have been much worse off.[191]

From July 1931 Westerling's 'leak' no longer existed and Van Waveren even spoke of a turning point in KHT's history. Since Kwik Djoen Eng had officially severed his ties with KHT in 1929 – by transferring of all of his shares in KHT and Frigga to Kwik Siang Ling[192] – KHT could finally act independently, at least in theory. The import of tea from Taiwan was KHT's only remaining viable business. KHT had dominated the Javanese market for many years and its brands were much in demand. In 1926, 80% of Taiwanese tea imports came in through KHT, although this had dropped to 40% in 1931 due to the company's problematic financial position. The tea trade constituted its final hope and Kwik Siang Ling decided to close down the Semarang office and concentrate all remaining business activities in Solo and Yogyakarta. Disaster struck before any positive results could be reported. KHT's tea trade had always been financed by the Bank of Taiwan, but in February 1932 the bank suddenly refused to grant any further advances. Van Waveren attributed this decision to the bad financial situation in Japan, but later concluded that KHT owed the Bank of Taiwan the considerable sum of *f* 180,000.[193]

Negotiations with the Chartered Bank and the Bank of Taiwan diminished KHT's chances for survival and DJB's confidence in a favourable outcome decreased. President and Directors of DJB asked themselves what surprise might be next and started to wonder whether KHT could survive. Because of the bank's collateral – still valued at *f* 1,000,000 – DJB's position was considered secure. Nevertheless, in March 1932 the maximum amount to be advanced to KHT was once again lowered and set at *f* 500,000. At the same time, KHT's account showed a deficit of *f* 636,000. The harsh economic conditions prohibited the collection of outstanding debt as well as

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191 At the beginning of 1929, for instance, KHT had owed Ching Siong & Co. *f* 1,600,000 on balance (BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 15-03-1929).

192 After the death of Kwik Siang Kaw in 1928, Kwik Djoen Eng had somehow obtained his shares in KHT. On 15 October 1930, Kwik Siang Ling put these shares into the N.V. Gim Mo Tjan. This limited liability company had been established in Yogyakarta on 8 July 1929 by Kwik Siang Ling and Kwik Siang Go (BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 17-10-1930; BI/DJB 3354 Folder 25: 1, 3; BI/DJB 1802).

193 BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 05-12-1931; BI/DJB 1858 Confidential correspondence from Semarang to Batavia regarding KHT, 22-02-1932; 05-03-1932, 08-03-1932.

the sale of any property and it proved impossible to reduce this amount to more acceptable levels. DJB had to accept this uncomfortable situation, but remained confident that its position was covered.[194]

On 16 September 1932 Van Waveren evaluated the past six months in a letter to Batavia in which he concluded that the existing relationship between DJB and KHT could not be continued. He had been almost exclusively preoccupied with KHT, but in spite of his efforts the result had been negative. He acknowledged the exceptional circumstances, but also claimed that KHT's management was incompetent and incapable of breaking with old habits. Kwik Siang Ling was willing and prepared to supply information, but lacked the determination and authority to impose his will. His father was always in the background. Though old and sick Kwik Djoen Eng was still actively involved in all matters concerning KHT, as were many other Kwik family members. Van Waveren called this "system of family and friends" disastrous, since most were not qualified to perform their tasks and unconvinced of the serious situation. To continue like this was out of the question.

Van Waveren realized that a withdrawal of the overdraft facilities combined with a cashing in of the banks security (stocks and real estate) would lead to KHT's bankruptcy. Unwilling to do this, he proposed to stop granting advances against produce and to release *f* 200,000 worth of tea and several other items in order to give KHT a last chance to continue its business. The credit against promissory notes, which enabled the company to finance the margin between the estimated value of the produce and the percentage DJB was willing to advance, would be continued for the time being. To reduce KHT's debt as much as possible, the entire sugar stock was to be sold after which the account would be fixed. Van Waveren reckoned that this would bring KHT's total debt to DJB to approximately *f* 1,150,000, covered by mortgages on real estate with an estimated value of *f* 1,047,300. President and Directors of DJB accepted this proposal. However, to safeguard the bank's interests they deemed it necessary to have full control of Frigga, particularly since on 30 July 1932 Frigga had acquired the shares of all but two of the Surabaya building societies. Since DJB's charter did not permit the purchase of Frigga's shares, Van Waveren bought them for *f* 100 from N.V. Gim Tjan Moh on 30 September 1932.[195]

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[194] BI/DJB 1858 Confidential correspondence from Semarang to Batavia regarding KHT, 05-03-1932, 10-03-1932,15-03-1932, 19-03-1932, 23-03-1932.

[195] BI/DJB 1658, 16-09-1932; BI/DJB 1802.

As of 1 October 1932, after nearly forty years, KHT could no longer enjoy the credit facilities of DJB. The bank appears to have had little confidence in KHT's chances of survival, because no arrangement was made with regard to its substantial debt. Without the burden of a repayment scheme, the company managed to remain in operation for another year. On 25 November 1933 Van Waveren was informed that Kwik Djoen Eng would return to Hong Kong the following day. It was rumoured that KHT had transferred most of its stock in Solo to another firm by the name of Toko Kiem Tjiang and that from now on any payment of KHT's debtors would be received by the new firm.

Van Waveren immediately travelled to Yogakarta and Solo to ascertain the truth of this worrying news. In Yogyakarta he was told that Kwik Siang Ling had accompanied his father and would return in three weeks. According to the deputy manager business was very bad and the Yogyakarta office would therefore be liquidated on short notice. In Solo Van Waveren could not find a representative of KHT to answer his questions. He thereupon went to Toko Kiem Tjiang which turned out to be stocked with KHT merchandise.[196]

An investigation of KHT's books made it clear that Toko Kiem Tjiang was established by Kwik Siang Ling's wife with a starting capital of *f* 30,000 which had been withdrawn by Kwik Siang Ling himself from KHT's account. Apparently, the new firm was to take over KHT's tea trade, since it had purchased the right to use KHT's tea trademarks for the next fifteen years against payment of *f* 25,000. The books also showed that debtors had been promised to be relieved of their obligations upon immediate payment of a percentage (between 50 and 20%) of their debt in cash. This had enabled the Kwik family to transfer about *f* 100,000 to China and Taiwan in the course of the year. In other words, KHT had been effectively stripped of all its assets.

The principal creditors, DJB, the Chartered Bank and the Bank of Taiwan, were not prepared to accept this. They decided to close down the operations of KHT after nearly forty years of existence. Upon his return to Java in January 1934, they forced Kwik Siang Ling to liquidate KHT voluntarily. This guaranteed their preferential treatment, although their expectation of being repaid cannot have been very high.[197]

If KHT's balance sheet of 31 December 1933 was any indication, the credit they had once extended would be very hard to retrieve. The

196 BI/DJB 1659, 30-11-1933.
197 BI/DJB 1659, 07-12-1933, 29-01-1934.

liquidation value of the remaining assets was estimated at *f* 74,000, whereas the actual debts to be paid amounted to *f* 1,380,000 (see Table 5.10). In November 1934 Van Waveren complained that the liquidation of KHT did not proceed well, because it owed the government *f* 23,000. Taking the matter seriously, the authorities threatened to intervene and file for bankruptcy if no payment or compensation was offered. During the next two months, DJB tried to negotiate an agreement that would allow a further undisturbed liquidation of KHT's affairs, but to no avail. In the last week of January 1935, KHT was finally declared bankrupt upon the government's request. It seems ironic that only a few days before, at the age of 75, Kwik Djoen Eng had passed away in Taiwan.[198]

KHT's downfall left DJB with a claim of *f* 1,145,601 that would prove impossible to recover. This was not recognized at the time. As late as November 1934 Van Waveren still confidently asserted that DJB did not have to fear bankruptcy of KHT since the real estate mortgaged to the bank provided sufficient security.[199] This collateral consisted of the premises owned by Frigga in Semarang, Surabaya, Yogyakarta and Solo. KHT itself had no virtually no assets, although the book values appeared to contradict this (see Table 5.10).

However, entries such as 'Ching Siong & Co.' (*f* 920,961), 'Gim Moh Chan' (*f* 423,459) and 'Gim Siong' (*f* 1,454) were either creations of Kwik Djoen Eng or family-related and therefore worthless. The same applied to the 'family members' that were indebted to KHT for *f* 712,697. The miscellaneous entry going by this name included a personal debt of Kwik Bok Gwan of approximately *f* 550,000. The adopted son of Kwik Djoen Eng and former agent of KHT in Surabaya had fallen out with his foster father as early as 1925 after which he had left Java for Amoy (Xiamen). Since he had declared in writing that he no longer recognized Kwik Djoen Eng as his father, his debt to KHT was irrecoverable.[200]

Those assets that were real could only be liquidated at great expense due to the crisis conditions of the 1930s. As a result, the entries 'Land &

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[198] During the 1930s and at least up to 1947, Kwik Siang Go repeatedly tried to regain possession of KHT and Frigga property. During the war, he even tried to solicit the support of the Japanese. His attempts to negotiate a new settlement were, however, unsuccessful and Kwik Siang Go remained empty-handed (BI/DJB 1563 Confidential correspondence from Batavia to Amsterdam, 05-02-1935; BI/DJB 1802; BI/DJB 1659, 13-11-1934, 24-01-1935; BI/DJB 3354 Folder 25: 7).

[199] BI/DJB 1659, 30-11-1933.

[200] BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 15-03-1929; BI/DJB 1858 Confidential correspondence from Semarang to Batavia regarding KHT, 19-03-1932.

Table 5.10. Balance sheet of the N.V. Kwik Hoo Tong Handelmaatschappij, 31–12–1933.

| Assets | Book value (*f*) | Liquidation value (*f*) | Liabilities | Book value (*f*) | Actual debts to be paid (*f*) |
|---|---|---|---|---|---|
| Land & Buildings | 160,388 | 26,000 | Capital | 500,000 | |
| Steam launch | 2,000 | 2,000 | Reserve | 685,835 | |
| Inventory | 5,000 | 5,000 | DJB | 1,145,601 | 1,145,601 |
| Shares | 5,000 | | Chartered Bank | 170,993 | 170,993 |
| Debtors (stocks) | 20,685 | – | Taiwan Bank | 43,612 | 43,612 |
| Sundry debtors | 77,236 | 40,000* | Indisch Woonhuis** | 840,861 | – |
| Family debtors | 712,697 | – | Frigga | 652,079 | – |
| Ching Siong & Co.[1] | 920,961 | – | Butterworth & Co. | 35,000 | – |
| Gim Moh Chan[2] | 423,259 | – | Creditors (stocks) | 20,685 | – |
| Gim Siong[3] | 1,454 | – | Finlay process | 10,000 | 5,000 |
| Cash and Bank | 1,992 | 1,992 | Sundry creditors | 24,942 | 15,000 |
| Loss | 1,914,906 | – | Family creditors | 20,001 | – |
| | | | Gim Siong[4] | 86,805 | – |
| | | | Thay Tong[5] | 101,111 | – |
| | | | Gim Moh Chan[6] | 8,053 | – |
| | 4,345,577 | 73,992 | | 4,345,577 | 1,380,205 |

[1] Ching Siong & Co. (Singapore, Hong Kong, Taipei)
[2] Gim Moh Chan (Taipei, Shanghai), branch office KHT
[3] Gim Siong (Hong Kong)
[4] Gim Siong (Amoy, i.e. Xiamen), managed by Kwik Han Tjwan (Kwik Djoen Eng's cousin)
[5] Thay Tong (Amoy, i.e. Xiamen), owned by Gim Siong
[6] Gim Moh Chan (Taipei), branch office KHT
* The right to collect these debts was ceded to DJB on 29-07-1932 to serve as additional security.
** The shares of this building society were owned by Frigga from 30-12-1932 onwards.
Source: BI/DJB 1802; BI/DJB 3354 Folder 25: 3.

Buildings' and 'Sundry debtors' were reassessed at only 28% of their book value. It is hard to understand why DJB's collateral security, upon which the credit arrangements with KHT ultimately rested, never received a similar critical review. Not even during the reorganization of the credit arrangement with KHT in 1929 was a thorough assessment conducted.

At one point DJB's management was warned not to disregard the uncertain value of Frigga, but little notice was taken. In a discussion with agent Westerling in December 1928, W.C.B. van der Zwaan – a lawyer as well as a commissioner of DJB in Semarang – characterized Frigga as the only "weak link" in the current agreements with KHT. By drawing attention to the fact that DJB might be forced to execute Frigga's assets at a less appropriate moment in time, he put the finger on the spot.[201] This scenario, though hardly credible before the crash of New York's Stock Exchange, happened in the 1930s. As a result of the economic crisis, real estate turned out to be unsalable. Instead of an asset, Frigga threatened to become a liability as the exploitation of the company's property (mostly rents) barely covered its upkeep. The management of Frigga's premises took a disproportionate amount of time and energy with discouragingly little result. In the end DJB struggled to break even. It should not come as a surprise that upon the Japanese invasion in 1942, DJB had managed to reduce KHT's debt less than 1% to *f* 1,137,432.[202]

The downfall of KHT resulted from interacting circumstances over a long period of time. While some delayed the company's demise, others actually accelerated the process. This makes it hard to ascertain the most important causes leading to the company's bankruptcy. Of all the plausible reasons, four stand out, i.e. the personality of Kwik Djoen Eng, the establishment of Ching Siong & Co., the intricate relationship between DJB and KHT and, finally, the economic conditions of the 1930s.

Despite the ultimate failure of KHT and Ching Siong & Co., Kwik Djoen Eng's life epitomizes the proverbial rags-to-riches tale. Starting his career in 1877 as a destitute Chinese migrant, he slowly climbed the social and economic ladder in the decades to follow. Parallel to the colony's economic progress, his commercial success dated from the start of the century. Before the First World War he was a moderately successful trader in sugar, but he really made his fortune during the period 1914–1919. It was the war that made him a millionaire and after the cessation of hostilities he had become part of Java's commercial establishment. Between 1915 and 1925 KHT was a highly successful contender within the colony's lucrative sugar business and for a while Kwik Djoen Eng seemed capable of challenging Oei Tiong Ham, the 'Sugar King' himself.

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[201] BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 28-12-1928, 29-12-1928.

[202] It should be noted, that this amount did not include the interest on KHT's debt account which had accumulated to *f* 480,000 between January 1934 and January 1942 (BI/DJB 1802).

At the age of sixty, Kwik Djoen Eng had accomplished everything he might have wished for. Being a man of independent means he could indulge himself and do whatever he pleased. The house he had built in Salatiga at the main road to Semarang (*Toentangse weg*) attests to the enormous wealth he had acquired. This immense building, which still exists today[203] and is known in Salatiga and surroundings as *gedung 'Jun Eng'*, was erected between 1921–1926. At the time, it was rumoured to have cost the incredible sum of *f* 3,000,000.[204] The huge residence had four pagoda-shaped towers, one on each corner, and a large domed edifice in the middle, representing Kwik Djoen Eng's four sons and himself.[205] The many rooms were richly decorated in a colonial style which showed both Western and Chinese influences, having tiled floors with a variety of decorative themes, stained glass, and a clear preference for marble adornments. Besides this luxurious interior, the occupants could also enjoy a lavish ornamental garden, a large pond, a zoo, and a tennis court.[206] Since the entire estate comprised no less than 12 ha. of land, there was even room for a coffee plantation.

By building his own 'palace' Kwik Djoen Eng confirmed his accomplishments. However, his unbridled ambition required more than public recognition and could only be satisfied with repeated success in business. In order to make the transition from a successful to an exceptional entrepreneur and become a true business tycoon, he moved to Hong Kong where he established Ching Siong & Co. and invested heavily in land and harbour development. Unfortunately, these investments did not yield

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[203] It now houses the Roman Catholic training institute Roncalli (Jalan Diponegoro 90, Salatiga). The following description of the building can be found in a brochure of this organization with the title *Riwayat Gedung yang ditempati Institut Roncalli*. A copy of this brochure was provided by E. Weinberg.

[204] According to DJB the building costs had amounted to about *f* 1,000,000. *Het groote huis* (the 'big house'), as it was called by the Dutch, was one of the few pieces of property DJB managed to sell with great difficulty before 1942. However, the bank could only obtain a fraction of its estimated worth, since it had to settle for a mere *f* 40,000 when the house was sold in 1940 to the *Broeders van Maastricht* (a Dutch monastic order). The house remained empty for the time being and was used as an internment camp during the war (BI/DJB 1802; www.japanseburgerkampen.nl; www.bersiapkampen.nl).

[205] Both the towers and the dome were demolished during a large renovation of the building in 1969–1970. Pictures of the house in its original state can be found in De Vries (1929: 197) and the Roncalli brochure.

[206] When visiting the Roncalli Institute on 12 October 2005 the well-maintained building still showed many of these rich features. Remnants of the ornamental garden were still present, displaying Kwik Djoen Eng's initials KDE on the surviving elements. The pond, zoo and tennis court failed to survive while the estate itself had fallen victim to building activities.

sufficient profits and Kwik Djoen Eng often used KHT's capital resources in an attempt to prop up his fledgling business initiatives. Throughout his career he never differentiated between the various companies he owned, simply considering them an integral part of his trading business. As a result, he did not hesitate to use the proceeds of one firm to make up for the losses of another.

Capital to him was a tool of circulation rather than a tool of accumulation. Investments were often used to establish and/or maintain links with customers and merchant networks and not necessarily to maintain profits. DJB disapproved of such methods which it viewed as irrational and typical Chinese, but could not persuade him to alter his conduct. Being strong-willed – or stubborn – Kwik Djoen Eng was seldom inclined to follow the advice of others. He was a born leader with a gift for business, who preferred to act boldly and was willing to take a chance. These character traits also had a distinct negative connotation: he could be authoritarian, shrewd, and prone to irresponsible speculation or outright gambling.

The intricate relationship between DJB and KHT complicated matters even further. Kwik Djoen Eng always tried to establish a personal bond between himself and the agent in question by making regular visits to his office and inviting him to his home for dinner. It is obvious that he succeeded particularly well in the case of Byleveld whom he even employed at a later stage. Likewise, the agent of the Bank of Taiwan as well as the agent of the NHM in Hong Kong were not impervious to his charm. This was of little consequence as long as economic conditions were good.

Throughout the 1920s, KHT could profit from the high world demand for sugar and the outstanding performance of the Java sugar industry. With excellent supply conditions at home and lucrative prices abroad, the commercial banks were very keen to finance the sugar trade. This explains why DJB was prepared to accept almost anything from a big client like KHT and would even overlook occasional dubious dealing. But with the advent of the economic depression and the near total collapse of the Java sugar industry in the 1930s this favourable situation vanished. When the economic tide started to change for the worse, the hidden transfer of KHT's capital was no longer acceptable and, with a sense of regret, the decision was finally taken to terminate a remarkable forty year business relationship.

CHAPTER SIX

# ECONOMIC CRISIS AND COMMERCIAL RESILIENCE (1930–1942)

In the 1930s world market prices plunged as a result of the worldwide economic crisis. The colony's income depended largely on export revenues and economic decline set in. After decades of abstinence the government had to re-enter the economic scene. Trading enterprises saw a sharp decline in turnover which threatened their profitability and survival. Economic conditions slowly improved after 1936. The Pacific War however put an end to this economic recovery. In 1942 the Japanese military advance reached the Indonesian archipelago, ending a long period of Dutch political dominance.

The economic crisis encouraged the imposition of a range of trade barriers. Import regulations and initiatives aimed at economic autarky were implemented and crippled international trade. The commercial relationships of the preceding decade proved hard to maintain, as indicated by measures of the colonial administration aimed against the encroachment of Japanese business. Government support alone did not suffice. Traders needed a more professional business organization to meet the requirements of a reorganized economy. The trading system itself, however, was not fundamentally altered. The delicate balance between the different participants remained crucial.

## *The Economic Experience of the 1930s*

After years of preparation the prestigious International Colonial Exhibition or *Exposition Coloniale Internationale* was held in Bois de Vincennes near Paris from 6 May till 6 November 1931.[1] This grand project was intended to celebrate the progress made by Western civilization in the colonized parts of the world. The Netherlands was also present with a magnificent pavilion demonstrating the splendour of the Indonesian

[1] This section is primarily based on the dissertation of M. Bloembergen who analysed the representation of the Dutch colonial image by describing the Dutch participation in five international (colonial) exhibitions (Bloembergen 2002: 271–316). See also Taselaar (1998: 348–358).

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archipelago as well as the achievements of the prolonged presence of the Dutch. Nearly *f* 2.5 million had been spent on this temporary structure which shows how much the Dutch government valued its colonial image.

In portraying the Netherlands Indies the Dutch resorted to a well-tried twofold approach. Besides displaying Indonesia's rich cultural heritage – with a strong Balinese focus – special emphasis was placed on the colony's economic achievements. Visitors were informed about the means of transportation, the road and railway network, the density of telephone, telegraph and postal services, as well as the electricity grid. Attention was also paid to climatic circumstances, export agriculture, money and finance, engineering, the trade balance, etc. To appeal to the imagination of the audience the Dutch organizing committee made use of sophisticated means of representation, such as illuminated maps with motion indicators, stuffed animals and colourful diorama's.

The so-called 'staircase of abundance' (*trap des overvloeds*) was one of the more successful examples. Here the distribution of the colony's export produce was symbolized by dozens of little figurines each carrying a product down the stairs (Bloembergen 2002: 301; Taselaar 1998: 352). With a map of the Indonesian archipelago as the diorama's point of departure, the figures appeared to multiply before reaching their symbolic destination: a map of the world. This forceful, though rather misleading, impression of affluence illustrated the economic accomplishments of the Netherlands Indies. The Dutch presence at the Colonial Exhibition was a well-orchestrated and executed public relations act. However, given the economic distress of the Netherlands Indies at the time, it was neither an accurate nor truthful depiction.[2]

### *Reversal of Fortune*

In October 1929 the New York stock exchange on Wall Street suddenly collapsed after a fierce speculative boom during the preceding years. This spectacular event turned out to have devastating consequences worldwide.[3] The severity of the crash dealt a violent blow to people's confidence in the real economy which manifested itself in declining orders and

[2] It seems rather symbolic that the Dutch colonial pavilion burned to the ground on 28 June 1931. The decision to rebuild was quickly made and in a tour de force a new, though less conspicuous, pavilion was constructed and officially opened on 17 August 1931.

[3] From 1929 till 1932 Wall Street's industrial stock would lose about 82% of its value, accompanied by a drop in America's industrial output of no less than 54%. ([Atlas] 1987 II: 145).

investment. The resulting economic contraction accelerated the decline in commodity prices that had been evident since the late 1920s. A serious oversupply of some of the world's major primary commodities, like rubber and sugar, had started to affect world market prices long before Wall Street tumbled. With no effective means of price restoration at their disposal producers had tried to compensate for the threatening loss of revenue by raising output. This strategy merely served to exacerbate the existing fall in prices and when world demand shrank after 1929 the impact on commodity prices turned out to be disastrous.[4]

In the Netherlands Indies export prices fell by 7.1% annually between 1920 and 1928 (see Chapter 5, Table 5.1 and 5.2). However, export volumes rose by 7.7% over the same period and the colony's terms of trade continued to improve by an average of 6.8%. (In other words prices for imports declined faster than for exports.) Conditions deteriorated rapidly at the beginning of the 1930s when commodity prices took a nose-dive. From 1928 till 1934 export prices fell by almost 20% on an annual basis. Despite falling import prices the colony's terms of trade turned negative, decreasing 6.9% on average. There was no production growth to balance the difference, since export volume fell by 3.9% during these years. The economic crisis was also apparent in the colony's money supply which declined by 2.2% reflecting the reduced number of money transactions within the colony. These indicators point to a general decline in economic output. A conclusion supported by a fall in GDP per capita of 3.4% between 1928 and 1934, in sharp contrast with the increase in GDP of 2.3% during the period 1920–1928 (Booth 1998: 18).

The Netherlands Indies economy was heavily dependent on the export of primary products and therefore extremely vulnerable to price fluctuations. Rubber and sugar alone accounted for 52% of total export earnings in 1925,[5] but by 1932 rubber exports stood at 5% of the peak value in 1925. Sugar experienced a similar dramatic price fall between 1923 and 1934 with a drop in value of 87%. Increased output failed to absorb these downward price movements. Between 1925 and 1929 the rubber production increased by 24%, whereas export values fell by 60%. Sugar production

[4] The existing literature about the 1930s worldwide Depression is overwhelming. The impact of the crisis on the Asian economies and the Netherlands Indies in particular has also been well documented. The following publications provide an excellent introduction: Boomgaard (2000), Booth (1998: 39–47, 105–116, 154–161, 203–222), Dick et al. (2002: 153–162), Taselaar (1998: 363–422).

[5] This figure breaks down into 32% for rubber and 20% for sugar, representing a money value of *f* 582,210,000 and *f* 367,312,000 respectively.

expanded 52% during the period 1923–1929, but total export value nonetheless decreased by 38%. When the economic crisis hit after 1929 and prices dropped even lower, production increases were finally dismissed as a way of maintaining revenue. In 1932 the output of rubber had already fallen 20%, while sugar output had diminished by 53% in 1934.[6]

The most striking feature of the crisis of the 1930s was the loss in value of the colony's most important export commodities, i.e. sugar, rubber, tobacco, copra and oil (Korthals Altes 1991: 20).[7] Compared to the average price level of the 1920s, export prices dropped to 26% during the 1930s (Korthals Altes 1994: 19).[8] As a result total export value during the first half of the 1930s completely collapsed and only started to recover after 1935 (see Table 6.1 and Figure 6.1). When corrected for the extreme fall in commodity prices the export economy kept performing reasonably well until 1932, only to fall back and stabilize around the 1913 level during the late 1930s.[9] Total import values, whether measured in current or real prices, likewise dropped and did not bottom out until 1935. This partly reflected the magnitude of deflation, especially in rural areas. When compared to the preceding decade import prices on average nearly halved during the 1930s (Korthals Altes 1994: 19).[10] In 1934 the Batavia cost of living index was only 58% of its 1928 value, whereas the rural Java food price index stood at 41% (Booth 1998: 40; Dick et al. 2002: 156).[11] This price fall restored international competitiveness to some degree and helped cushion the decline in income of the population.[12]

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[6] See Dick et al. (2002: 155), Van der Eng (1993a: 202–205), Khudori (2005: 21, 34–36), Lindblad (1988b: 278–79, 286–289), Lindblad (2000: 132).

[7] In 1925, the export of these commodities accounted for 75.2% of total export earnings (Booth 1998: 208).

[8] See Chapter 5, Table 5.2.

[9] This was mainly due to the delayed reduction of the high production levels for sugar and rubber (Creutzberg 1975: 53).

[10] See Chapter 5, Table 5.2.

[11] Two years later the Java rice price index was still only 36% of its 1929 level. As the government severely restricted rice imports from 1933 onwards producers nonetheless profited, while the forcing up of prices in the years to follow did not affect sales as had been expected (Creutzberg 1978: 18–20, 22–23).

[12] The explanation given for the rapid deflation is the adherence of the Dutch to the gold standard until 1936. According to Booth a sharp internal deflation was the only way to bring about the necessary real depreciation of the guilder when faced with deteriorating terms of trade and a nominal appreciation in the exchange rate (Booth 1998: 40). More information concerning the adherence to the gold standard in the Netherlands can be found in Griffiths (1987) and Korthals Altes (1979). The 'colonial' stance regarding this issue is detailed by Taselaar in his study on the Dutch colonial lobby (Taselaar 1998: 371–380).

Table 6.1. Imports and exports of Java and Madura, 1929–1940: values (at constant prices x *f* 1,000) and index numbers (1913=100).

| | Import | | | | Export | | | |
|---|---|---|---|---|---|---|---|---|
| | Value | | Real value[1] | | Value | | Real value[1] | |
| 1929 | 717,784 | 220 | 475,354 | 146 | 714,916 | 203 | 525,674 | 149 |
| 1930 | 568,327 | 175 | 400,230 | 123 | 572,407 | 163 | 629,019 | 179 |
| 1931 | 411,045 | 126 | 367,004 | 113 | 379,667 | 108 | 666,082 | 189 |
| 1932 | 262,314 | 81 | 291,460 | 89 | 299,827 | 85 | 749,568 | 213 |
| 1933 | 224,075 | 69 | 312,917 | 96 | 226,499 | 64 | 612,159 | 174 |
| 1934 | 193,165 | 59 | 261,034 | 80 | 215,435 | 61 | 478,744 | 136 |
| 1935 | 179,182 | 55 | 248,864 | 76 | 191,681 | 55 | 425,958 | 121 |
| 1936 | 183,637 | 56 | 248,158 | 76 | 211,445 | 60 | 358,381 | 102 |
| 1937 | 317,733 | 98 | 324,217 | 100 | 298,232 | 85 | 363,809 | 103 |
| 1938 | 319,308 | 98 | 339,689 | 104 | 230,608 | 66 | 397,600 | 113 |
| 1939 | 360,078 | 111 | 379,029 | 116 | 278,395 | 79 | 371,193 | 106 |
| 1940 | 299,246 | 92 | 264,819 | 81 | 294,353 | 84 | 387,307 | 110 |

[1] deflated import and export values.
Source: Korthals Altes (1991: 46–56, 66–75), Korthals Altes (1994: 159–166).

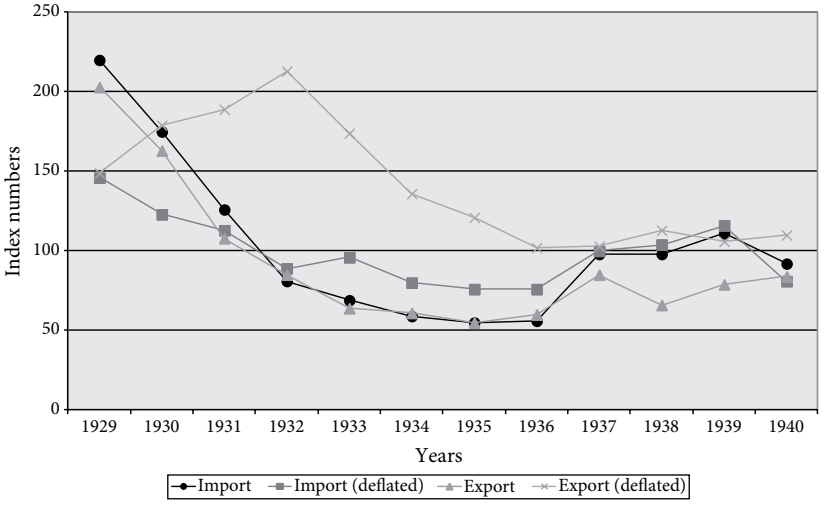


Fig. 6.1. Index numbers of imports and exports, Java and Madura 1929–1942 (1913=100).
Source: Table 6.1.

From the mid-1930s the economy of the Netherlands Indies started to show distinct signs of recovery (Boomgaard and Brown 2000: 4–5) (see Chapter 5, Table 5.1). Export prices improved by 7.8% annually after 1934 and were accompanied by a growth in export volume of 2.2%. The colony's terms of trade once again turned positive and would remain so for the rest of the decade. Business transactions and investment picked up strongly as indicated by an average increase in the money supply of 3.8%. The rapid resurgence of the economy also manifested itself in a significant rise of GDP per capita of 2.5% per year during the period 1934–1940 (Booth 1998: 18). This change of fortune can be attributed to a number of factors. First, food crop agriculture performed well during the latter part of the decade as did smallholder production of important cash crops such as rubber. Second, when the intensity of the crisis started to wane, the international conditions slowly improved. With demand from the industrialized countries rising, world market prices took a turn for the better and with it the prospects for the Netherlands Indies' economy. Third, a significant feature of the partial economic recovery at the end of the 1930s was the sudden growth in industrial output. Between 1931 and 1939 the contribution of manufacturing to GDP jumped from 8% to 12%.[13] This development was closely linked to the Dutch response to the unrivalled success of Japanese business at the height of the crisis (Booth 1998: 41–43, 46–47, 86; Dick et al. 2002: 161).

Industrialization and the so-called 'Japanese threat' constituted two main themes of the colonial administration's economic policy during the prolonged crisis of the 1930s. The latter received far more public attention as the growing economic strength of the Japanese was considered a threat to the colonial economic and political system.[14] Japanese trade had begun to boom during the First World War. The country's share of imports into the Netherlands Indies climbed from 2% in 1914 to 22% in 1918. After the end of the war, this percentage dropped to 8% by 1922 and reached 12% at the end of the decade. (See also Chapter 5, Table 5.7.) After 1928 Japanese exports to the Netherlands Indies experienced a vigorous growth and

[13] Because of the progressive development of the industrial sector Booth maintains that the economic recovery towards the end of the 1930s was actually led by manufacturing.

[14] See Post (1991: Chapter 7 and 9) for Japanese economic activity in the Netherlands Indies in the 1930s. Of special interest are the articles published by Dick (1989) and Booth (1994). More information regarding the political implications of the Japanese presence in the colony is provided by De Graaff (1997: 260–270). Japanese espionage activities are dealt with in Haslach (1985: especially 107–133, 151–152, 174–175).

soared to a peak of 32% in 1934. At this point it nearly exceeded combined imports from the European countries.

Japan owed this achievement, first of all, to the fact that it manufactured a range of consumer goods (e.g. garments, household utensils, bicycles) cheaply.[15] Many of these were extremely popular as they appealed to indigenous taste and were sufficiently low-priced. In addition, during the 1920s and 1930s Japanese companies succeeded in building up their own marketing and distribution network throughout the Indonesian archipelago[16] even though the economic ties with the Chinese business community remained important.[17] This allowed them to operate more independently and develop a business strategy based upon a large clientele and characterized by rapid turnover and small profits. Finally, when the yen devaluated almost 60% against the guilder in December 1931 Japanese products became even more sought-after. More clients helped increase turnover while simultaneously spreading the commercial risk (Booth 1998: 209–211; Dick 1989: 251–253; Dick et al. 2002: 158–159).

The official reaction to the encroachment of Japanese business on Dutch colonial territory was initially rather mild. In the eyes of the administration cheap Japanese imports provided a cushion against falling living standards. Likewise, the soaring deficit in bilateral trade with Japan, aggravated by lagging Japanese demand for the colony's exports, was not considered particularly disturbing. However, this attitude was soon replaced by genuine concern for the loss of the colonial export market for

[15] This was especially true of textiles and garments after the Japanese textile industry managed to reduce its production costs through the adoption of new technologies (Booth 1998: 209–210).

[16] The development of a Japanese distribution chain was propagated by the Japanese government as early as 1912 and started rendering results from the mid 1920s. The underlying motives still remain to be clarified, although it can safely be assumed that the age-old ties between the political bureaucracy and economic elite in Japan played an important role. (In Chapter 2 and 3 of his dissertation Post describes the traditional interaction between politics and economics in Japan as exemplified by the Japanese economic expansion in Asia.) See Dick (1989: 253), Post (1991: 175), Post (1996: 300–301).

[17] As mentioned in Chapter 5, Paragraph 'The Colonial Economy after 1914' the focus on an exclusive Japanese distribution network should not obscure the lasting importance of Chinese networks for Japan's economic expansion in Southeast Asia. According to Post Japanese companies continued to work closely with influential business groups within the Chinese commercial community. These personalized Japanese-Chinese economic networks continued to have a positive effect on Japan's economic advance throughout the 1920s and 1930s (Fukuda Shozo 1995: 228–246, especially 228–229; Post 1995 and 2004). When Japanese firms tried to re-establish their presence in Southeast Asia after the Second World War they once again relied upon Chinese interlocutors. According to McVey, Western firms were either overconfidently uninterested or too suspicious of the Japanese to respond to their overtures (McVey 1992: 21).

Dutch products and the growing threat of the Japanese presence to the colonial distribution system.

The response was the *Crisisinvoerordonnantie* (Crisis Import Ordinance) of September 1933 which gave the government the opportunity to impose import quotas and discriminate by country of origin. Regulation also took the form of import bans – with rice being the most important commodity to be protected – and widespread price control. This complex system of restrictions would affect almost 40% of all imports. Although officially denied, it was no secret that these measures were primarily intended to reduce Japanese imports significantly.[18] This goal was achieved by 1937 when Japan's overall share of imports had been cut successfully from 32% to 15%.[19]

The export sector did not escape regulation either. Apart from the dramatic slump in export prices, the 1930s saw a drastic curtailment of traditional export markets due to worldwide protectionist measures. Since the Netherlands failed to provide a substantial market for the colony's products, most Netherlands Indies exports were sold in unprotected markets and therefore price-sensitive. These circumstances forced the Dutch to reconsider their economic policy and persuaded them to embark on a strategy of production restriction in an attempt to make the colonial economy less vulnerable to price fluctuations on the world market.

The colonial government attempted to regulate the domestic production of export crops either unilaterally for products such as kapok, cinchona, coffee and copra, or in the case of sugar, rubber, tea and tin by joining international commodity stabilisation programmes. Although the outcome of these schemes varied considerably, each had a profound

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[18] The Japanese protested fiercely against these measures which resulted in tough and protracted trade negotiations between 1934 and 1937. Besides reducing Japan's import share, two more issues were at stake. In an attempt to rein in the Japanese system of direct distribution the Dutch insisted that no more than 25% of Japanese imports be handled through Japanese living in the Netherlands Indies. In addition, they also objected to the growing share of Japanese shipping on the route between Japan and the Indonesian archipelago. The diplomatic bickering finally led to the conclusion of three agreements: a shipping agreement in 1936 and two trade agreements in 1937 (the Hart-Ishizawa agreement) and 1938 (the Van Mook-Kotani agreement). These agreements benefited the Dutch more than the Japanese. Renewed negotiations, lasting from September 1940 till June 1941, failed because of the demands put forward by the Japanese. See Duynstee (1980: 148–154), De Graaff (1997: 267–268), Haslach (1985: 84–90, 99, 144–148, 156–157, 164–167), De Jong (1984 Vol. 11a: 671–676), Post (1991: 245–248), Taselaar (1998: 410–412). See also BI/DJB 1563; BI/DJB 3009.

[19] See Booth (1998: 219–221), Dick (1989: 253), Dick et al. (2002: 158–159), Fukuda Shozo (1995: 135–145), Panglaykim (1963: 8–12).

impact on the lives of those involved. The harsh restrictions turned out to have far-reaching consequences for both the European and the indigenous population.[20]

Sugar provides a good example of the depressed situation of the 1930s. As a result of the crisis the sugar importing countries introduced measures to safeguard their high-cost producers of beet sugar against the competition of cheap cane sugar. Java as an exporter was especially vulnerable since the small size of the Dutch market meant that it was heavily dependent on unhampered international trade. When China, Japan and India – traditionally the main buyers of Javanese sugar – started to protect their markets by means of import regulations, the industry found itself in dire straits.

In 1932 the international Chadbourne Scheme was agreed upon. This allotted to each participating country a sugar export quota and provided for a reduction in the acreage of sugar worldwide. The Vereenigde Javasuiker Producenten (VJSP) was replaced by the Nederlandsch-Indische Vereeniging voor de Afzet van Suiker (NIVAS) with compulsory powers and an inclusive membership. However, the Chadbourne Agreement did not include the British Empire, the United States, Japan and the Soviet Union and therefore failed to achieve the results hoped for. In 1937 the International Sugar Council was set up to allocate export quotas and the fortunes of the industry slowly improved, although this was partly attributable to stockpiling caused by the threat of war, rather than to any restrictive measures ([Javasuiker] 1932–1933).

Intervention of this kind signalled the end of the colony's traditional free trade policy and paved the way for a new strategy of domestic self-sufficiency. Import-substitution and industrialization were placed high on the political agenda and the authorities actively supported industrial development by initiating capital works programmes and establishing research centres to upgrade technology and management. In the meanwhile the protection offered by the new trade regulations contributed significantly to the rapid diffusion of modern technologies.[21]

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[20] A first-hand account of this confrontation can be found in a curious, but interesting book entitled *Indisch getij, Hollandsche bakens*. Through an intriguing blend of fiction and non-fiction the authors – A. Voortland and W.G.N. de Keizer – offer a glimpse of the economic hardship people had to endure during the 1930s and the bitter sacrifices they were obliged to make (Voortland and De Keizer 1944).

[21] See Booth (1998: 156, 218–219), Dick et al. (2002: 159), Haccoû (1947: 17–30, 141–154, 215–256), Sato (2004: 21), Taselaar (1998: 380–400, 472–483), Voortland and De Keizer (1944: 88–99).

The textile industry around Bandung profited strongly from these efforts which resulted in a significant modernization of the sector. With the help of a strong demand for locally woven sarongs the number of modern handlooms rose from 500 in 1930 to 49,000 in 1941. Most industrial activity, however, was drawn to Batavia where several new industries were established, including automobiles (General Motors), rubber tyres (Goodyear), margarine (Unilever) and shoes (Bata).

Other projects that were initiated in the late 1930s included the production of consumer goods such as light bulbs, bicycles, confectionery, rubber sandals, metal fittings and soap. The late colonial industrialisation achieved some degree of import substitution, albeit in a narrow range of mainly consumer goods. It was only after the occupation of the Netherlands in 1940 that domestic demand was shifted to local heavy industry. For two years the metal, machinery and chemical industries operated at full capacity, because of government contracts in anticipation of war with Japan. In addition, a crash program for the development of heavy industry was announced which aimed to free the Netherlands Indies from dependence on foreign supplies of essential industrial inputs. Unfortunately, many of the projects under consideration had barely left the drawing-board when the Pacific War broke out and none would ever be completed.[22]

### *The Incidence of Failure: Bankruptcy Cases and Business Fraud*

Entrepreneurial activity within the colony suffered greatly from the severe economic conditions of the 1930s. Although statistical information is fragmentary at best, business was hit very hard. From the turn of the century private foreign investment in the Netherlands Indies had increased uninterruptedly. Estimates indicate that in 1900 total investment in the colony amounted to approximately *f* 750 million. In 1914 this figure had doubled to *f* 1.5 billion and would reach *f* 4 billion around 1930 after an investment peak in the 1920s.[23] However, the economic crisis had a negative effect on

[22] See Booth (1998: 156–157), Dick et al. (2002: 159–162), Keppy (2001: 35–40), Segers (1987: 27–38).

[23] Since about two-thirds of foreign capital invested was Dutch, Dutch capital-owners in particular were at the receiving end during the crisis. According to one estimate, Dutch investors had lost more than 5 billion guilders by the end of 1931 and this was said to constitute one-third of all taxable property in the Netherlands at the time. Consequently, Dutch investment in the colony declined. In 1914 75% of Dutch foreign direct investment had been destined for the Netherlands Indies, but in 1938 this percentage had fallen to 60% (Boomgaard 2000: 27, 48; Lindblad 1991: 189; Sluyterman 2003: 137).

all investment activities in the Netherlands Indies and the accumulated aggregate had fallen to *f* 3.5 billion by 1940.[24] This downward trend was mirrored in the decline of private capital imports which were negligible during the period 1931–1935. Dividends and trade profits started to crumble as early as 1925 and virtually collapsed after 1929 (see Table 6.2).[25]

These data are indicative of the colony's sharply deteriorating business conditions after the onslaught of the economic crisis. Examination of the corporate sector supports this assertion. In 1929, for example, there were 2796 corporate enterprises operating in the Netherlands Indies. In 1936, this number had dropped by 25% to 2108. The following years saw little improvement despite the undeniable economic recovery of the late 1930s. In 1940 there were still only 2155 companies registered, a marginal increase of 2% when compared to 1936. Hundreds of enterprises had been forced to discontinue their business operations as a result of the economic downturn (see Table 6.3). Admittedly, the number of corporate enterprises in the colony had seen significant reductions before, but these had not been as severe and did not result from a worldwide economic contraction. The steady decline of the 1920s probably had its roots in the overly

Table 6.2. Private capital imports and dividends & trade profits in the Netherlands Indies, 1900–1939 (x *f* 1,000,000).

| | Private capital imports | Dividends & trade profits |
|---|---|---|
| 1900 | 10 | 22 |
| 1905 | 44 | 40 |
| 1910 | 135 | 67 |
| 1915 | 50 | 32 |
| 1920 | 242 | 356 |
| 1925 | 82 | 329 |
| 1930 | 69 | 64 |
| 1935 | – | 49 |
| 1939 | 18 | 79 |

Source: Boomgaard (2000: 27), Korthals Altes (1987: 88–95).

[24] See also Booth, who discerns the same trend based on different numbers (Booth 1998: 254–255).

[25] See Boomgaard (2000: 27), Creutzberg (1977: 19, 60–61), Korthals Altes (1987: 88–95), Lindblad (1991: 189), Lindblad (2002: 139–141).

Table 6.3. Corporate enterprises in the Netherlands Indies, 1914–1940.

| | Total | Index number (1914=100) | Percentage change[1] |
|---|---|---|---|
| 1914 | 2779 | 100 | |
| 1919 | 3656 | 132 | 32% |
| 1924 | 3288 | 118 | –10% |
| 1929 | 2796 | 100 | –15% |
| 1936 | 2108 | 76 | –25% |
| 1940 | 2155 | 78 | 2% |

[1] The calculated percentages indicate the relative change compared to the previous reference year.
Source: Lindblad (1991: 198), Lindblad (1998: 74).

optimistic mood after the First World War which had caused business to expand rapidly. From 1914 to 1919 the number of corporate enterprise showed an increased by 32%.[26] Many of these new business ventures were ill-considered and inherently unstable. Born out of speculative considerations, they were susceptible to the slightest setback and the vast majority of these fledglings soon disappeared from the scene. At the end of the 1920s the number of corporate enterprises had therefore returned to the level of 1914 (Lindblad 1991: 191, 207–208).

Perhaps the most telling indication of the difficult circumstances under which enterprises had to operate during the Interbellum is the incidence of bankruptcy. Statistics of this kind were compiled by the Councils of Justice, where all bankruptcy proceedings in the colony took place. These were published in the *Koloniaal/Indisch Verslag*. This information refers to all bankruptcy cases heard and is not confined to the corporate sector alone. As shown by the percentages in Table 6.4 entrepreneurial activity within the Netherlands Indies consisted of more than corporate business alone.[27] When looking at the number of new cases the years 1930–1933 stand out. No doubt, the immediate impact of the crisis forced many into bankruptcy. The numbers also confirm that the early 1920s had their economic downside as well, contrary to the traditional depiction of the 1920s

[26] According to Lindblad the decennium 1910–1919 constituted the '*Gründerzeit*' of corporate enterprise. This period showed a proliferation of new business with the establishment of more than 2200 companies against 1350 in the 1920s and 800 in the 1930s (Lindblad 1991: 191; Lindblad 1993: 703–704).

[27] Since personal bankruptcies were also included in the statistics, it must be noted that the total number of applications does not represent entrepreneurial activity alone (*Koloniaal Verslag* 1907).

Table 6.4. New bankruptcy cases submitted at the Councils of Justice in the Netherlands Indies, 1919–1940.

| | Total | Corporate enterprise[1] | |
|---|---|---|---|
| 1919 | 296 | 22 | (7%) |
| 1920 | 320 | 34 | (11%) |
| 1921 | 478 | 55 | (12%) |
| 1922 | 878 | 103 | (12%) |
| 1923 | 987 | 122 | (12%) |
| 1924 | 827 | 110 | (13%) |
| 1925 | 652 | 65 | (10%) |
| 1926 | 695 | 58 | (8%) |
| 1927 | 717 | 55 | (8%) |
| 1928 | 701 | 38 | (5%) |
| 1929 | 843 | 44 | (5%) |
| 1930 | 1125 | 76 | (7%) |
| 1931 | 1436 | 66 | (5%) |
| 1932 | 1578 | 88 | (6%) |
| 1933 | 1277 | 57 | (4%) |
| 1934 | 977 | 55 | (6%) |
| 1935 | 989 | 52 | (5%) |
| 1936 | 904 | 35 | (4%) |
| 1937 | 671 | 21 | (3%) |
| 1938 | 754 | 18 | (2%) |
| 1939 | 871 | 22 | (3%) |
| 1940 | 642 | 22 | (3%) |

[1] This category includes the bankruptcies of both 'Naamloze Vennootschappen' (NV) and 'Commanditaire Vennootschappen' (CV).
Source: *Koloniaal/Indisch Verslag* 1920–1941.

as a decade of economic opportunity. The high share of bankruptcies in the corporate sector is striking, probably because the prevalent euphoria after the First World War had finally come to an end. People had viewed the future with great confidence and this enhanced their willingness to invest in company shares, even in speculative business proposals.

Fluctuations in the number of bankruptcies are helpful in identifying the ups and downs of business life, but they do not say much about the repercussions felt by the business community at large. Bankruptcy cases could take years, so it is hard to make up the balance and ascertain the

amount of damage inflicted. A definitive list of assets and liabilities could only be made up after all courtroom proceedings had been concluded. Table 6.5 and Figure 6.2 give an indication of the financial loss caused by business failure in the Netherlands Indies between 1922 and 1940. The figures presented here refer to the number of concluded bankruptcies and therefore do not correspond with the figures given in Table 6.4. In the first half of the 1930s the worldwide economic crisis nearly succeeded in bringing the colony to its knees. These years witnessed an extraordinary number of bankruptcies culminating in the loss of millions of guilders of invested capital. In most instances less than 10% of liabilities were ever repaid.

Table 6.5. Assets, liabilities, losses and repayments at concluded bankruptcies in the Netherlands Indies, 1922–1940.

| | Total | Assets *f* | Liabilities *f* | Losses *f* | x[1] | Repayments *f* | x[2] |
|---|---|---|---|---|---|---|---|
| 1922 | 516 | 1,276,000 | 9,880,000 | 8,551,000 | 87 | 1,329,000 | 13 |
| 1923 | 773 | 1,461,000 | 16,079,000 | 14,756,000 | 92 | 1,323,000 | 8 |
| 1924 | 676 | 1,631,000 | 12,145,000 | 10,936,000 | 90 | 1,209,000 | 10 |
| 1925 | 1,073 | 2,995,000 | 42,685,000 | 40,543,000 | 95 | 2,142,000 | 5 |
| 1926 | 745 | 2,761,000 | 37,926,000 | 35,771,000 | 94 | 2,155,000 | 6 |
| 1927 | 758 | 2,280,000 | 32,416,000 | 30,614,000 | 94 | 1,802,000 | 6 |
| 1928 | 764 | 3,871,000 | 35,698,000 | 33,110,000 | 93 | 2,588,000 | 7 |
| 1929 | 874 | 4,361,000 | 45,269,000 | 42,119,000 | 93 | 3,150,000 | 7 |
| 1930 | 937 | 3,306,000 | 16,747,000 | 14,425,000 | 86 | 2,322,000 | 4 |
| 1931 | 1,292 | 3,275,000 | 35,141,000 | 32,812,000 | 93 | 2,329,000 | 7 |
| 1932 | 1,452 | 2,494,000 | 23,799,000 | 22,091,000 | 93 | 1,708,000 | 7 |
| 1933 | 1,578 | 2,454,000 | 21,892,000 | 20,199,000 | 92 | 1,693,000 | 8 |
| 1934 | 1,101 | 1,772,000 | 16,795,000 | 15,690,000 | 93 | 1,105,000 | 7 |
| 1935 | 1,014 | 2,168,000 | 31,818,000 | 30,314,000 | 95 | 1,504,000 | 5 |
| 1936 | 863 | 1,488,000 | 9,161,000 | 8,083,000 | 88 | 1,078,000 | 12 |
| 1937 | 773 | 995,000 | 6,724,000 | 6,114,000 | 91 | 610,000 | 9 |
| 1938 | 661 | 802,000 | 9,096,000 | 8,594,000 | 94 | 502,000 | 6 |
| 1939 | 700 | 792,000 | 4,614,000 | 4,144,000 | 90 | 470,000 | 10 |
| 1940 | 716 | 835,000 | 2,464,000 | 1,917,000 | 78 | 547,000 | 22 |

[1] losses as a percentage of liabilities.
[2] repayments as a percentage of liabilities.
Source: *Indisch Verslag* 1923–1941.

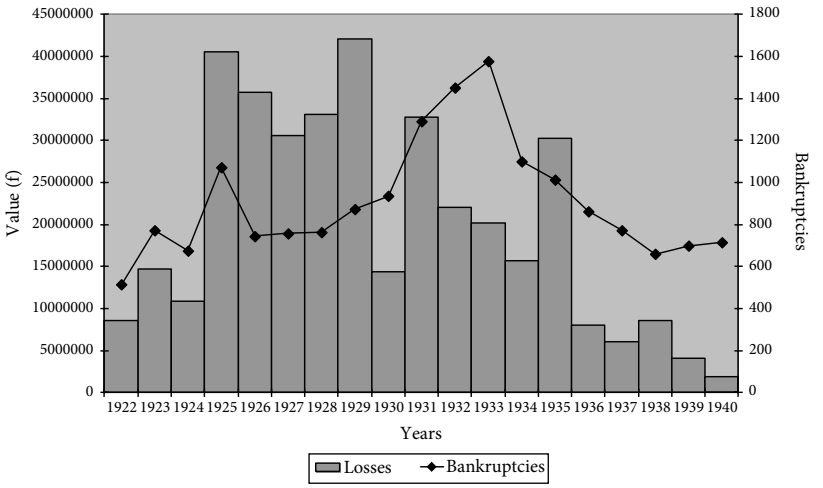


Fig. 6.2. Concluded bankruptcies and sustained losses in the Netherlands Indies, 1922–1940.
Source: Table 6.5.

Upon closer examination, it becomes apparent that business fared much worse in the 1920s than the 1930s, even though the economic circumstances were far better (see Figure 6.2). The graphic representation of financial loss incurred over the entire period clearly shows a peak for the second half of the 1920s. In the end, the accumulated loss over the years 1925–1929 amounted to more than *f* 182 million or 48% of the total calculated loss for the years 1922–1940. By contrast, the crisis years 1931–1935 saw an accumulated loss of about *f* 121 million. Attention should also be paid to the fact that far fewer bankruptcies were involved in the record losses of the late 1920s compared to the early 1930s. In other words, those bankruptcies that were finally concluded involved much bigger cases. This becomes even more apparent when considering Table 6.6 which shows the average sustained loss for each year.

The question remains how this difference in performance can be explained. At first glance the economic development of the interwar years should have resulted in a completely different outcome, the very opposite of what actually happened. As noted above an answer to this seeming paradox lies in the fact that the late 1920s saw a much needed correction to the massive expansion of business after 1918, much of which had not been based upon solid economic considerations. Immediately after the war over-optimism caused people in general and businessmen in particular to

Table 6.6. Average sustained loss at concluded bankruptcies in the Netherlands Indies, 1922–1940.

| | Average loss *f* |
|---|---|
| 1922 | 16,572 |
| 1923 | 19,089 |
| 1924 | 16,178 |
| 1925 | 37,785 |
| 1926 | 48,015 |
| 1927 | 40,388 |
| 1928 | 43,338 |
| 1929 | 48,191 |
| 1930 | 15,395 |
| 1931 | 25,396 |
| 1932 | 15,214 |
| 1933 | 12,800 |
| 1934 | 14,251 |
| 1935 | 29,895 |
| 1936 | 9,366 |
| 1937 | 7,909 |
| 1938 | 13,002 |
| 1939 | 5,920 |
| 1940 | 2,677 |

Source: Table 6.5.

be more prone to speculation. During this period basic precautionary measures tended to be neglected, especially with regard to finance. Credit was extended with great ease against small or insufficient collateral. Existing control mechanisms were not functioning properly, or were overlooked due to the mood of the moment and greatly enlarged workload.

The discovery of several blatant cases of fraud during the first half of the 1920s showed that a reorganization of the business sector was urgently needed. When world market prices started to slide after the middle of the 1920s, the banks began to review their existing credit arrangements. In light of the recent frauds as well as the negative economic forecast they developed a more cautious attitude. Many struggling companies looking for financial support were turned down and forced out of business. The exuberance of post-war economic life had finally come to an end and by

1929 the reorganization of colonial business life was well under way (see Table 6.6). When the crisis of the 1930s struck, most overly ambitious companies had been successfully weeded out. Consequently, the smaller ones with little financial resources had to bear the brunt of the coming economic misery.

*Resurgence of Fraud*

Fraud appears to have been of comparatively little concern to bank managers during the first two decades of the twentieth century, a period of significant economic progress. Lucrative business opportunities ensured that credit was in great demand and readily given. Credit extension was profitable and potential safeguards made it relatively safe. With a smoothly running economy and good financial results, the memory of defaulting debtors and/or chronic deceit faded. The possibility of a wave of bankruptcies seemed remote. What had happened in Batavia in the 1860s and Surabaya in the 1890s became little more than a faint memory. Likewise, the heated discussion with regard to endemic fraud amongst Chinese businessmen, that once received such widespread attention, subsided. Supported by the eagerness of the banks to finance the business sector, the economy continued to prosper for many years suffering only a temporary setback with the outbreak of the First World War.

Prior to 1921 DJB seldom referred to clients being forced to default on their payments. In addition, no mention was made of any significant case of fraud. This does not suggest that those indebted to DJB never experienced any problems, but it does indicate that DJB managed to safeguard its interests sufficiently and did not suffer any appreciable loss in the occurrence of such events. Business conditions quickly deteriorated with the readjustment of the colony's overheated economy at the beginning of the 1920s. The unexpected death in February 1921 of the Chinese tycoon Tjong A Fie – one of DJB's biggest account holders at the time – proved to be the first ominous sign (Buiskool 1999: 23–28; Setiono 2003: 277–290).[28] DJB's agent in Medan reported that the settlement of Tjong A Fie's business affairs would be 'very complicated'. He also warned that his death would affect the financial position of the Deli Bank which was owned by Tjong A Fie.[29] As principal creditor DJB was asked by the family to help

[28] BI/DJB 103 Nr. 45: 386; BI/DJB 103 Nr. 46: 389–390.

[29] The Deli Bank had been founded in 1907 by Tjong A Fie, his brother Tjong Yong Hian and his uncle Thio Tiauw Siat. They recognized the opportunities of a Chinese bank while searching for a profitable way to handle the huge cash flow stemming from their business

out. Upon investigation it became evident that Tjong A Fie had misappropriated the bank's funds to finance his own business interests, ranging from large investments in plantations, to real estate development and even a railway company in South China (Yen Ching-Hwan 1984).

The Deli Bank could no longer live up to its financial commitments and had to close its doors temporarily to the detriment of a large group of mainly Chinese traders and depositors.[30] DJB suffered no financial consequences even though it had been involved in Tjong A Fie's business affairs to a total amount of *f* 4.5 million. Nevertheless, President and Directors were shocked to find out that they had been misinformed by Tjong A Fie on more than one occasion. Examination of the books revealed that he had bent the rules repeatedly, aided by negligence and the high degree of trust placed in him personally. DJB's treasured information position, built up over many years, had been meaningless. The far-reaching implications of these findings were not realized immediately. The death of Tjong A Fie and the resulting debacle was of such singular proportions that it was viewed as an exceptional case with little bearing upon reality. The unravelling of Tjong A Fie's intricate business empire left little room for introspection, and lulled by the fact that no money had been lost DJB's affairs seemed in good order.

President and Directors were soon to be disappointed, as proven by the events surrounding the death of a Chinese debtor in Solo.[31] Tjiook Kee Siang, a textile trader of good repute, had been a client of DJB for over ten years during which he had never betrayed the confidence placed in him.

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dealings. Catering to the needs of the Chinese population in Medan and surroundings, the Deli bank aimed to facilitate the Chinese intermediate trade as well as the transfer of money to China and successfully managed to attract the savings of many Chinese. Its operations were supported by DJB, who considered the Deli Bank useful for the economic development of East Sumatra and an important instrument in keeping the region's petty traders out of the hands of loan sharks. The Deli Bank turned out to be more than just a convenient tool for streamlining the money flow of the Chinese economic elite. The bank rapidly expanded its business and raised its starting capital from *f* 650,000 in 1907 to *f* 5,000,000 in 1918. Within ten years it had drawn virtually all local Chinese business and capital to its office at which point it could hold its own against the 'foreign' banks in Medan (Additional information supplied by Dirk Buiskool). See also Brown (1994: 166–168), Queeny Chang (1981: 128).

[30] At the moment of Tjong A Fie's death the Deli Bank was overdrawn to the amount of 7,000,000 guilders. The decision was therefore made to liquidate the bank under the supervision of DJB. With the financial support of DJB the creditors were paid in full and after a speedy reorganization the bank was reopened on 14 March 1921. The millions of guilders misused by Tjong A Fie were repaid by his relatives over the next twenty years (Additional information supplied by Dirk Buiskool).

[31] BI/DJB 1514: 362–365, 376–381.

Known to be a wealthy and cautious businessman, he had been extended credit on a regular basis by the agent of DJB in Solo as well as by his predecessor. Upon his death towards the end of 1920 Tjiook Kee Siang owed DJB approximately *f* 135,000 against textiles of specified number and quality. Not doubting the value of these goods, agent Burlage was not alarmed when it became known that Tjiook Kee Siang had been heavily indebted. He did have to react swiftly and call in the help of the police when other creditors tried to break open the godown where DJB's collateral had been stored. Apart from this incident there were no peculiarities to report. Substantial fraud was discovered only after head office ordered him to auction the textiles in order to clear the debt from the books. Although the number of boxes and bales of cloth added up, close inspection revealed that their contents did not. The samples shown to the agent had been of a higher quality and the actual value of the surety was therefore much lower than the book value. In the end the auction fell over *f* 60,000 short which had to be written off.

Burlage was severely reprimanded by the President and Directors of DJB who accused him, among other things, of great carelessness as well as a lack of responsibility by not keeping in close contact with them. However, they did acknowledge that part of the blame should be ascribed to them. The bank's management had failed to visit the Solo branch regularly and ascertain the local business conditions personally. A summary analysis of this regrettable situation was given in a letter dated 26 February 1921. In it the crucial importance of "regular inspections of the agencies" was adamantly stressed.[32] These inspections had been totally neglected in the past and could not even be carried out sporadically.

This costly failure was caused by the rapid expansion of DJB's operations over the past few decades which had not seen a comparable rise in personnel. Even more significant was the "almost systematic neglect" of filling higher management positions in line with the sharp increase in both operations and responsibilities. Many higher positions were vacant, so there was virtually no personal contact between the head office and the agencies. Since the personnel problem could not be solved in the foreseeable future, the fastest way to improve the situation would be to introduce "simplifications in the mode of operation".[33] The author failed to elaborate on the kind of changes to be made. He advised against the uncontrolled accumulation of tasks that had become part of DJB's

[32] BI/DJB 1514: 364. Citation underlined in the original while using capital letters.
[33] BI/DJB 1514: 365. Citations underlined in the original while using capital letters.

workload, but were not directly related to its core business. Personnel efficiency could easily be improved by discarding these manifold and time-consuming activities. Unfortunately these tasks remained unidentified as well.

These recommendations did not elicit any official response. No immediate change of policy was proclaimed, not even a general directive warning agents to beware of fraudulent behaviour. It would take more than one instance of fraud to demonstrate that business conditions were indeed less favourable than before, and that a resurgence of fraud had to be reckoned with.

The events surrounding the demise of the Hong An Kongsi in Palembang towards the end of 1922 are of special interest in this respect.[34] This Chinese trading enterprise had been a client of DJB ever since the establishment of the Palembang office in 1909, and had earned the trust of the bank's representatives. Agent L.D. Termytelen was dumbfounded when this trust turned out to be completely unfounded. Upon inspecting the company's godown on 26 October 1922, he suddenly stumbled across irrefutable evidence of large-scale fraud. Leaving aside some minor discrepancies in the amount of other products stored, it was ascertained that only 681 (24%) out of 2841 registered bags of coffee were actually present.[35] In addition, each remaining bag weighed approximately 30% less than the original entry in the books. To pull off this scheme, the perpetrator(s) had succeeded in bribing the Chinese *pakhuismandoer* or overseer Teng.[36] This constituted another great shock for Termytelen,

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[34] BI/DJB 105 Nr. 32: 254–263; BI/DJB 3040; BI/Indover 224 Map A Nr. 26.

[35] Much to his embarrassment Termytelen had to acknowledge that the godown only held room for 1300 bags at the most. Since the godown had been stacked to the roof on previous inspections, leaving just enough space under the ceiling for a person to lie on top of the pile, he had failed to notice this. Termytelen received a sharp rebuke for this costly omission which could have been avoided if he had insisted upon proper inspection corridors. In addition, he had also allowed several doors of the godown to be bolted from the inside instead of being locked from the outside. With bags of coffee piled up high, these doors could easily be concealed from sight and created the opportunity to remove the bolts and enter the godown after the agent had left the premises. See for the 'art' of proper storage the article of Van Beneden entitled: *Stapelen in suikergoedangs* ("Stowing in sugar godowns") (Van Beneden 1934: 1–9).

[36] Teng's job as overseer required him to write down what went in and out of each godown under his control. For someone in this position it was easy to deceive management. As long as the books added up, the only chance of being caught was on the occasion that the agent would inspect the godown personally. In the case of the Hong An Kongsi this was not a problem either, since Termytelen would not climb on top of the bags himself to count the rows but would order Teng to do so. Unsurprisingly, the numbers shouted by Teng while crawling under the ceiling corresponded with the written record. It was only

since Teng had been employed by DJB for more than thirteen years and was deemed completely trustworthy.

The whole affair, resulting in a loss of more than *f* 65,000, appears to have struck a chord with the management of DJB. President and Directors understood that something had to be done. Their immediate reaction was to draw up a circular on 20 November 1922 in which they outlined the recent debacle (without naming the company and office involved) to serve as a warning to all DJB personnel.[37] They emphasized the need for repeated and meticulous inspection of godowns. Only systematic control could prevent future embezzlement. The circular, labelled secret and signed by President E.A. Zeilinga himself, was sent to all branch offices of DJB across the archipelago with the urgent request to bring its content to the attention of all those involved in the extension of credit.[38]

Naturally, the circular as such served only a short-term purpose. Its effect would soon wear off as agents became preoccupied with other important matters. Buried in cumbersome paperwork with a range of difficult and/or time-consuming duties to attend to, they found themselves constantly pressed for time. With many offices seriously understaffed, opportunities to conduct surprise inspections were rare and impossible to conduct on a regular basis. It should also be kept in mind that the agencies were expected to run a profit which was no sinecure given the fiercely competitive environment. Chronic competition within the colonial financial sector often took the form of a scramble for new clients. More than once agents were obliged to adopt a lenient attitude towards their existing debtors. To balance risks and possible gains when dealing with such internal and external pressures was nearly impossible and greatly increased the chance of being deceived.

DJB's management realized that the distribution of an official letter from head office did not provide a real solution to this problem, not even a temporary one. A follow-up was therefore required. President and Directors agreed upon the urgent need for tighter management control on the basis of more detailed information. This called for a distinct improvement in Batavia's information position. For this purpose the agents'

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when the members of the *kongsi* failed to replenish their stock in time, even though they were forewarned by Teng that their conspiracy was detected.

[37] BI/Indover 224 Map A Nr. 26.

[38] In his book Vleming discusses the problem of fraud related to the storage of goods in godowns and the overseer's position. According to him credit extension of this kind was ultimately based on trust (Vleming 1926: 147–151).

customary correspondence with Batavia fell far short. Judged from the increase in the number of inspection tours carried out by the President and Directors during the 1920s, they started to develop a more active attitude towards supervision of the agencies. In addition, the controlling function was given more body by employing several full-time inspectors under the guidance of inspector-general Hordyk.[39]

Inspectors like Hordyk had to guard the interests of DJB and were given specific instructions to that effect. They paid regular visits – announced and unannounced – to the different agents to see whether their offices functioned properly and determine what could be improved. Upon arrival they would verify the validity of existing contracts by ensuring that these had been drawn up correctly. They would visit godowns to see whether these were properly locked, check the books to make sure that everything added up, and have a look at the merchandise stored inside in order to asses their correct value. The inspectors appraised and reappraised real estate that had been offered as collateral and would report any significant change in value. They also met clients in order to form an opinion about less tangible aspects such as a person's character, business mentality, living and working conditions as well as the people he or she dealt with both professionally and privately. Inspectors would act as trouble shooters examining complicated questions involving, for instance, delicate inheritance issues, complex legal procedures, or suspected cases of fraud. Soon, inspectors' visits became a powerful instrument of supervision. The outcome of which could determine the career of DJB's employees as their performance was rated as well.

During the course of an inspection all relevant findings were put in writing using a specified format and reported back to head office immediately. If need be, the report could be supplemented at a later date by asking the inspector concerned for more specifics. Building this new source of information required some time, but once in place it could be tapped at will. Though reminiscent of the so-called information books (*informatieboeken*) compiled towards the end of the nineteenth century, the inspection reports served their purpose far better. Besides providing client information, the reports touched upon more subjects of relevance and were considered more accurate as they were not drawn up by the agents themselves. Towards the end of the 1920s President and Directors of DJB finally had a valuable management tool, enabling them to better

[39] BI/Indover 481*; BI/Indover 496 Map A.

direct and/or redirect a fast growing and complex organization operating in an increasingly volatile economic environment.

The potential benefits of an improved information position appear to have been successfully exploited by DJB. A strong argument in favour of this conclusion is the virtual absence of complaints regarding fraud during the second half of the 1920s. Although on occasion clients were forced to suspend payment, little or no suspicion was raised as to the reason why. Furthermore, after 1923 no loss stemming from defaulting clients was recorded with the exception of 1925/26 when a small amount of *f* 14,800 had to be written off. This differed substantially from the period 1920–1922 when *f* 470,000 was written off on account of irretrievable debt (De Bree 1928: II Appendix $S_1$, U).

Tightened supervision and improved information retrieval enabled DJB to safeguard its interests more efficiently. Part of this success probably originated from the ongoing reorganization of business life mentioned above, as speculative enterprise was weeded out which left companies better equipped to survive. Admittedly, few were really capable of weathering the storm of the 1930s, but despite a surge in bankruptcies following the worldwide economic crisis fraudulent behaviour was no longer perceived as one of the root causes of business failure. There was no discussion of a possible resurgence of fraud during this period. From a business point of view the 1920s were far less positive than is now remembered, whereas the 1930s were less dramatic. Still, the two decades do differ fundamentally as to the problems they posed for business. Contrary to the previous decade entrepreneurial activity in the 1930s faced an acute external threat for which no ready made solution was at hand. How trading enterprises managed a crisis of yet unknown proportions will be illustrated below by examining more closely the strategies chosen by two companies: Internatio and Margo-Redjo.

## *Commercial Resilience and Crisis Management: Internatio and Margo-Redjo*

### *Internatio*

Before the end of the nineteenth century Internatio had already experienced two major crises. (See Chapter 2 and 3) In 1866 and 1884 the company came close to extinction as a result of its large commitments in agricultural enterprise. In both instances the company's financial arrangements were at the root of the problem. Following each crisis Internatio reorganized its business, but only after 1884 did the company

scale down its loss-making activities in export agriculture. This 'liquidation process' absorbed most of the company's profits and took many years. A debenture loan of *f* 2.5 million had to be paid off and capital outlays in agricultural enterprise had to be reduced by approximately *f* 5 million. It was not until 1905 that Internatio's management concluded that "the complete clean-up of old rubbish" (*de volledige schoonmaak van oud vuil*) had been completed successfully.[40] After 21 years the effects of the crisis no longer weighed upon the results of the company and the year 1905 was celebrated as the start of a new period of expansion ([Internatio] 1913: 23; [Internatio] 1938: 27–28; Stout 1963: 29).

At this point, trading operations formed the backbone of Internatio, most of which were conducted on the basis of consignment contracts. (See Chapter 3.) Such transactions earned a relatively humble sales commission, but at the same time minimized the company's risk. Given the great financial losses incurred in 1884, management chose to refrain from speculative trade transactions which might rake in higher profits, but could very well burden the company with additional losses. Trading for own account did offer better profit margins, but involved more uncertainties and was only done to secure more consignment contracts. At the beginning of the twentieth century the revenue generated by commission constituted Internatio's most important source of income. In 1905 consignment deals accounted for 72% of the company's income earning capacity, whereas trading for own account generated only 5% (Sipos 1992: 92).

The following years witnessed a spectacular expansion of Internatio's activities as indicated by a rapid increase in turnover and profits. Between 1900 and 1929 turnover increased from *f* 19 million to *f* 135 million, while the company's net profits went from *f* 440,000 to almost *f* 3.8 million (see Table 6.7). Management paid specific attention to these figures and the relationship between them as expressed in the gross profit margin. Regarding the late 1930s, the following was noted: "Turnover remained our main criterion, increase of the gross profit margin our main aspiration."[41] However, using specific ratios, such as the leverage ratio or current ratio,[42]

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[40] Cited in C. Munters' unpublished overview of Internatio's interests in agriculture and industry entitled *Cultures en industriële bedrijven 1863–1961* (Archief Internatio Doc. 22: 18).

[41] Stout 1963: 36.

[42] The leverage ratio is the relationship between equity and loan capital. The current ratio shows how many times current assets cover current liabilities. For a brief history of

Table 6.7. Turnover and net profits of Internatio, 1900–1929 (x *f* 1,000).

| | Turnover | Net profit |
|---|---|---|
| 1900 | 18,876 | 440 |
| 1905 | 19,838[1] | 732 |
| 1910 | 26,451 | 1,002 |
| 1915 | 67,451 | 2,586 |
| 1920 | 146,216 | 3,180 |
| 1925 | 120,650 | 3,809 |
| 1929 | 134,148 | 3,797 |

[1] The figure for 1905 represents the average of the years 1904 and 1906.
Source: Sipos (1992: 88, 94).

to determine company policy was never considered: "It simply was not yet in the air."[43]

Nevertheless, analyzing Internatio's performance by looking at turnover and profit margins did provide valuable insights upon which strategic decisions could be based. The increase in turnover and profits pointed to a healthy expansion. Had the results failed to keep up with expanding business, profitability as measured by the return on capital employed would have declined in which case a change of policy would have been warranted. Internatio's management therefore kept an eye on the gross profit margin which monitors the relationship between the amount of revenue generated and the necessary turnover. In this respect, a growing margin was preferred as it equals a higher rate of return realized by the same input (Slot & Vecht 1988: 52, 55).

Table 6.8 indicates that during the first half of the period under consideration Internatio's activities displayed an excellent gross profit margin. This upward trend was interrupted by the First World War and the post-war crisis of the early 1920s. The ratio declined significantly, but managed to recover quickly as soon as economic conditions improved. Although complete recovery seemed imminent around 1925, the more volatile business conditions of the following years once again interfered and reduced the margin. This certainly affected Internatio's return on capital employed (ROCE), but reasonable profitability could still be

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the development of ratio analysis from the beginning of the twentieth century, see Slot and Vecht (1988: 48–49).

[43] Stout 1963: 36.

Table 6.8. Internatio's return on capital employed (ROCE), 1900–1929.

| | Gross profit margin[1] % | Asset turnover[1] | ROCE[2] % |
|---|---|---|---|
| 1900 | 2.5 | 1.2 | 3.0 |
| 1905 | 3.6 | 1.5 | 5.4 |
| 1910 | 4.9 | 1.7 | 8.3 |
| 1915 | 4.3 | 2.1 | 9.0 |
| 1920 | 2.7 | 2.0 | 5.4 |
| 1925 | 3.5 | 2.3 | 8.1 |
| 1929 | 2.9 | 2.4 | 7.0 |

[1] calculations based upon data from Sipos (1992).
[2] ROCE = gross profit margin x asset turnover.
Source: Sipos (1992: 72, 88, 93).

maintained because of a doubling asset-turnover ratio between 1900 and 1929. Capital invested in the company could thus be employed twice over the same period of time. By acting as a multiplier an improvement in asset-turnover immediately paid off by raising the profitability rate. For instance, had the asset-turnover ratio remained at 1.2 during the whole period, the company's return on capital employed in 1929 would have been 3.5 instead of the recorded 7.0.

Towards the 1930s annual net profits hovered around *f* 4 million which enabled dividend payments of 17% between 1925 and 1928. Results of this magnitude appealed to the shareholders and allowed Internatio's shares to be traded at the stock exchange in 1928 at 331% of their original value. Whether or not management paid attention to the negative development of the gross profit margin cannot be said with certainty. The company did however not subscribe to the prevalent buoyant mood, as indicated by its policy of capital reservation. In 1930 Internatio's capital reserves totalled approximately *f* 9 million, excluding the so-called silent or secret reserves. These secret reserves grew from *f* 4 million in 1919 to *f* 18.5 million in 1940. Therefore, they seem to have been quite substantial when the first signs of an economic malaise became apparent towards the end of 1929 ([Internatio] 1938: 60, 62; Sipos 1992: 67–68, 94).

The crisis of the early 1930s had an immediate effect upon Internatio's performance, as shown by sharply decreasing turnover and profits (see Table 6.9). Turnover plunged as early as 1930 and continued to fall until it stood at *f* 45,854,000 in 1933; only 34% of the level attained in 1929.

Table 6.9. Turnover and net profits of Internatio, 1929–1939 (x *f* 1,000).

| | Turnover | Net profit |
|---|---|---|
| 1929 | 134,148 | 3,797 |
| 1930 | 87,035 | 3,181 |
| 1931 | 66,941 | 769 |
| 1932 | 50,397 | 0 |
| 1933 | 45,854 | 0 |
| 1934 | 50,402 | 0 |
| 1935 | 50,242 | 142 |
| 1936 | 64,524 | 2,272 |
| 1937 | 104,823 | 2,205 |
| 1938 | 106,650 | 2,103 |
| 1939 | 120,155 | 3,706 |

Source: Sipos (1992: 88, 94).

The company's net profits plummeted in 1931 and reached rock-bottom between 1932 and 1934 when no profits were recorded. In addition, dividend payments were suspended from 1933 until 1936 and Internatio's share quotation would ultimately drop to 74% of its original value in 1934 ([Internatio] 1938: 67). These negative results strongly affected the gross profit margin of the company and thereby Internatio's return on capital employed (ROCE) (see Table 6.10 and Figure 6.3). The negative development of the asset turnover ratio was of little relevance under these specific circumstances. However, when Internatio started to make a profit again in 1935 the recovery of the company was hindered because of a diminished asset turnover.

Internatio's policy of capital reservation paid off during the first half of the 1930s and cushioned the worst effects of the crisis. Between 1932 and 1934 a total of *f* 4,988,000 was withdrawn from the reserve accounts, mainly to cover the company's loss-making activities in agricultural enterprise ([Internatio] 1938: 67). Although trading constituted Internatio's core business, it still had substantial interests in the production of agricultural commodities – primarily sugar – to serve its export activities (Sipos 1992: 24; Van de Kerkhof 2005: 182–183).[44] In 1929 the company's total

[44] C. Munters' *Cultures en industriële bedrijven 1863–1961* gives an account of Internatio's entrepreneurial activities in export agriculture during the period 1929–1940 (Archive Internatio Doc. 22: 30–61).

Table 6.10. Internatio's return on capital employed (ROCE), 1929–1939.

| | Gross profit margin[1] % | Asset turnover[1] | ROCE[2] % |
|---|---|---|---|
| 1929 | 2.9 | 2.4 | 7.0 |
| 1930 | 3.6 | 1.6 | 5.8 |
| 1931 | 1.3 | 1.3 | 1.7 |
| 1932 | 0 | 1.1 | 0 |
| 1933 | 0 | 1.1 | 0 |
| 1934 | 0 | 1.2 | 0 |
| 1935 | 0.2 | 1.3 | 0.3 |
| 1936 | 3.9 | 1.5 | 5.9 |
| 1937 | 3.1 | 1.7 | 5.3 |
| 1938 | 2.3 | 1.8 | 4.1 |
| 1939 | 4.0 | 1.9 | 7.6 |

[1] calculations based upon data from Sipos (1992).
[2] ROCE = gross profit margin x asset turnover.
Source: Sipos (1992: 72, 88, 93).

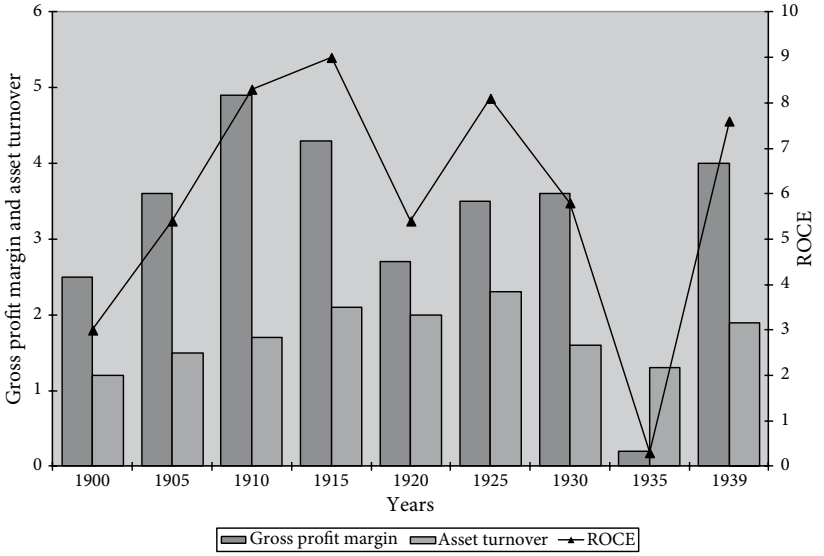


Fig. 6.3. Internatio's return on capital employed (ROCE), 1900–1939.
Source: Table 6.8 and 6.10.

capital outlay in agricultural enterprise amounted to *f* 4,372,000.[45] When comparing the advances related to Internatio's agricultural and trading activities, the relative importance of these activities is put into perpective. At the advent of the crisis, advances related to agriculture amounted to *f* 1,022,000, whereas *f* 6,200,560 had been advanced for the benefit of the company's trading business (*Jaarverslag Internatio* 1929).

Trade remained of primary importance, but under the given circumstances it could not contribute to a better performance of the company. Although trading activities continued to run a profit during the economic crisis, they were too limited to balance the heavy losses in agricultural enterprise (*Jaarverslag Internatio* 1929–1936). As noted, Internatio's turnover declined by 66% between 1929 and 1933. Recovery in sales was hesitant and did not really set in until 1936. It took three more years to reach the level of 1929 (Sipos 1992: 88).[46] Internatio's management was not prepared to wait that long. They realized that the company could not rely each year on the large capital reserves to make up for any loss.

Despite Internatio's strong financial position the situation was more than threatening. As shown in Figure 6.3, Internatio was hit very hard by the outbreak of the economic crisis. Shortly after its establishment in 1863 the company had focused on the Netherlands Indies. This turned out to be a major disadvantage given the one-sided economic development of the colony and its heavy dependence on the world economy. The existing fall in world market prices, leading to overproduction in the late 1920s, was accelerated by the crisis. Collapsing prices encouraged protectionist measures which in turn led to a shrinking of world trade.

With export prices at an all-time low the purchasing power of the colony's population suffered greatly and imports also declined. These imports had already suffered from Japanese competition for which the private sector could find no remedy. Government measures were helpful as they managed to reduce foreign competition by sealing off the colonial market while supervising the export trade in an effort to control prices. However,

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[45] During the crisis of 1884 Internatio's capital outlay in agricultural enterprise totalled *f* 9,200,000 against *f* 5,750,000 in equity capital and visible reserves. In 1929 these same figures amounted to *f* 4,372,000 against *f* 23,976,000, indicative of a much improved financial position. Contrary to 1884, Internatio's agricultural interests posed no real threat to the company's survival in the 1930s (Archive Internatio Doc. 22: 11, 34, 49).

[46] The sharp reduction and less than complete recovery of the asset turnover ratio during the 1930s also stresses the development of Internatio's turnover and the problems it raised regarding its profitability (see Table 6.10 and Figure 6.3).

government policy could only influence economic developments to a certain extent and Internatio required additional measures to survive.

In order to restore profitability Internatio came up with a strategy comprised of five elements (Sipos 1992: 45–66, 83–86). First, it tried to raise the profit margin on consignments as well as the trade it conducted for own account. Efforts were taken to increase commissions and prices and lower the cost of freight. These attempts met with little success. Asking higher commissions cost too many clients, while selling at higher prices was not only resisted by potential customers, but virtually impossible because of the competition. Some success was achieved in the case of reducing the cost of freight, but this was incidental. For example, a deal was struck with the Holland-Amerika Lijn for the transport of large quantities of tin against a reduced tariff.

Second, an attempt was made to cut expenses indirectly by streamlining the company's organization. The number of departments was reduced and the purchase and sale of trade goods became more centralized. It was hoped that this would not only lower costs but also improve cooperation between different departments. The reorganization resulted in a different company structure. Two departments in Batavia took care of all trading activities, one being responsible for the export as well as the sale of local products within the Netherlands Indies, while the so-called *Pacific-Afdeeling* managed all trade between the Netherlands Indies and other countries in the Far East, particularly Japanese imports into the Netherlands Indies. A third department in Batavia covered all business related to shipping companies. Finally, a special department in Semarang coordinated the company's interests in agricultural enterprise. In Rotterdam two more departments existed whereby department A dealt with the consignments, while department C took care of all trade conducted on Internatio's own account, including most of the business of department B which had been abolished.

Third, in order to combat the sharp decline in turnover the company expanded its activities, ignoring arguments in favour of shrinking operations during difficult times and concentrating all efforts on profit making. Instead, new and costly initiatives were unfolded to maintain and, if possible, improve the rate of turnover. During the 1930s new branch offices were established in Pontianak (1930), Bengkulu (1930), Pangkalpinang (1931), Makassar (1931), Bandung (1935), Banjarmasin (1936) as well as in Bangkok (1930) and Kobe (1937). In 1934 the English trading firm Burt Myrtle & Co., one of the oldest import firms in Java, was taken over. With a protected European market management started to search for new

potential buyers and suppliers in the Asian market. In the meantime Rotterdam tried to bypass the colony when trading with Asian customers in order to reduce Internatio's dependence on the economy of the Netherlands Indies. This attempt proved short-lived, because of strong competition and a lack of experience and proper distribution channels. Another initiative that also failed to bring the desired short-term result was the attempt to bypass the Chinese intermediate trade by setting up a distribution network for brand products. The high costs involved prevented this new strategy from turning in a speedy profit.

More success was achieved by expanding the number of goods that were traded. At the end of the 1920s Internatio traded in nine main categories of export products and seventeen main categories of import products. A decade later, however, the company listed 28 main categories for export products and 33 main categories for import products. This broadened selection of trade goods was no longer exclusively sold on the basis of consignment contracts. In the expectation of reaping higher profits, Internatio abandoned the conservative course it had followed for many decades. As a result, trading for own account quickly surpassed commission sales in importance. In 1929 commission still accounted for 46% of total revenue, but this dropped to 25% in 1939. Trading for own account rose from 23% to 67% over the same period (Sipos 1992: 92).

Another important and successful change of policy was the increased involvement in the establishment and financing of industrial companies. These factories served first and foremost as "protective resources" (*beschermende voorzieningsbronnen*) for the benefit of the company's trading business (Stout 1963: 36). Internatio's first experience in this field had been the establishment of the paper factory 'Padalarang' near Bandung in 1923 in cooperation with a Dutch paper producer. However, towards the end of the 1930s the company's interests included nine different industries: manufacturing and/or processing paper, sugar, tobacco, rubber, chemicals, earthenware, textiles, gunny bags and food products ([Internatio] 1938: 57; Panglaykim 1963: 9–10; Van de Kerkhof 2005: 183). Within a few years these industrial activities came to replace the diminished agricultural interests as Internatio's second most important business after trading.

Fourth, the volatile conditions on the currency and product markets required safeguards to limit the risk of losing money due to erratic price movements. For example, the depreciation of the British Pound Sterling in September 1931 cost Internatio *f* 900,000. Keeping large reserves of foreign currency on behalf of international transactions had suddenly

become a liability and was henceforth kept to a minimum. In addition, a special reserve account of *f* 750,000 was created in 1936 to absorb violent currency fluctuations.[47] Countries that could no longer pay for their imports, such as Germany, Austria and Hungary, constituted another problem for which no solution could be found. Around 1935 Internatio decided to cut its losses and subsequently discontinued business operations in these countries. Price fluctuations on the international product markets, however, could be hedged by selling or buying on the futures market. Though not entirely without risk, Internatio managed to handle these deals carefully. This enabled it to conduct more business.

Little could be done against market price fluctuations in the Netherlands Indies, because of the strong position of the Chinese intermediate trade. The only solution to this particular problem was to become less dependent on these traders.[48] Internatio's attempted to set up a distribution system of its own. Such a strategy involved a large investment in time and money and was of little immediate use. Instead, most trading companies strove to minimize their Chinese clientele's outstanding debt while simultaneously maximizing collateral security. Table 6.11 shows that Internatio followed this path successfully during the 1930s. In 1929 total outstanding debt on goods delivered amounted to *f* 5,307,000, but this was brought down quickly to *f* 1,971,000 in 1932. This was indeed a sensible decision, since the amount of irretrievable debt peaked the very same year. In 1932, *f* 485,000 or 25% of total debt had to be written off. In the following years Internatio managed to bring this percentage down to 2% in 1937. The company was nonetheless forced to write off *f* 1,815,000 during the 1930s. However, without the significant reduction of average outstanding debt from *f* 5 million in the 1920s to *f* 3.6 million in the 1930s this loss would undoubtedly have been higher.

Fifth, to overcome the crisis of the early 1930s cooperation between Dutch trading companies had to be encouraged. At the same time, there

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[47] Currency fluctuations continued to require close attention and could work out positively as well. After the Second World War Internatio's insurance department made clever use of existing currency differences. By shrewdly managing the department's money flow, the salaries of approximately eighty employees in this department were all paid out of profitable currency transactions (SMGI/Kortman 1098.1).

[48] The Japanese seemed to have had an important advantage in this respect, but Post finds that Chinese business networks continued to play an important role in Japan's trade with Southeast Asia throughout the 1930s. The perception that Japan's distributive system in the Netherlands Indies was built up solely by Japanese traders and retailers is contradicted by his research on the interactions between Japanese corporate hierarchies and Chinese networks (Post 1995: 170; Post 2004).

Table 6.11. Internatio's outstanding debt on trade goods and import client write-offs in the Netherlands Indies, 1929–1939 (x *f* 1,000).

| | Outstanding debt | Write-off[1] | % |
|---|---|---|---|
| 1929 | 5,307 | | |
| 1930 | 3,427 | 225 | (7) |
| 1931 | 2,510 | 294 | (12) |
| 1932 | 1,971 | 485 | (25) |
| 1933 | 2,111 | 182 | (9) |
| 1934 | 3,104 | 97 | (3) |
| 1935 | 3,273 | 132 | (4) |
| 1936 | 2,803 | 130 | (5) |
| 1937 | 4,617 | 70 | (2) |
| 1938 | 5,224 | 83 | (2) |
| 1939 | 6,871 | 117 | (2) |

[1] The numbers between brackets show the relative importance of the amount that was written off each year when compared to the amount of outstanding debt on trade goods.
Source: *Jaarverslag Internatio* 1929–1939.

was a strong need to improve the relationship between the trading sector in general and the colonial government. The fierce competition between traders and the mutual distrust that existed between the bureaucracy and the private sector did not disappear at once. Nevertheless, much was accomplished within a relatively short period. The establishment of the Nederlandsch-Indische Vereeniging van Importeurs-Groothandelaren (NIVIG) in 1934 was of great importance. The members of this importers' association not only offered their opinion on a range of issues, but also stood their ground better when confronted with a setback. The government soon recognized the usefulness of the NIVIG and appointed the association as its official advisor. Internatio strongly approved of this cooperative spirit and joined different schemes aimed at the reduction of competition.[49]

What remains is the question whether or not Internatio's adjustment to the crisis was effective. Management emphasized the positive development of the company's turnover, since it recovered as early as 1934 and

[49] See Taselaar (1998: 423–462) for the fruitless attempts to improve economic cooperation between the Netherlands and the Netherlands Indies.

reached respectable levels from 1937 onwards. When the gross profit margin showed that profitability had been restored as well, it was confirmed that the growth in turnover was accompanied by a return of profit. In 1936 net profit had already climbed to *f* 2,272,000 and in 1939 the level of 1929 was reached. At this point profitability rates as measured by the gross profit margin and the ROCE even exceeded the pre-crisis level. Given the available evidence, the conclusion must be that Internatio managed to survive the economic crisis of the 1930s unscathed. The company was thus well prepared for a renewed period of growth in which its industrial interests could have played a part. Had the Japanese occupation of the Netherlands Indies in 1942 not intervened, Internatio might very well have reaped the fruits of its resilience.

### *Margo-Redjo*[50]

Internatio's restored profitability towards the end of the 1930s owed much to the talent and vigour of its personnel. Although the crisis did not leave much room for manoeuvre, an adjustment policy had been formulated which explored all the leeway management could find. However, many of the opportunities seized by Internatio were only possible as a result of the company's huge financial resources. Internatio was among the biggest enterprises operating in the Netherlands Indies and its capital base could hardly be matched. The company took full advantage of this, even at the expense of its shareholders. A company like Internatio cannot therefore be considered representative for the majority of trading companies in the Indonesian archipelago. Those with little capital at their disposal simply could not afford the solutions chosen by their giant counterpart. They had to look for other, less expensive options within a more limited range of possibilities.

The coffee firm Margo-Redjo – Javanese for 'prosperous road'[51] – in Semarang provides an interesting example of how a smaller enterprise

[50] The following section is based upon the private archive of Margo-Redjo kept in Semarang for which permission was kindly granted by W.B. Dharmowiyono. More information was obtained during three interviews held with W.B. Dharmowyono on 19-06-1999, 04 and 13-12-1999. Tan Tjoan Ik provided additional information in an interview conducted on 18-10-2000.

[51] See Vleming (1926: 25–28) for the Chinese practice of giving enterprises and brands a well-sounding name. The fact that Tan Tiong Ie selected a Javanese name for his company appears to have been a deliberate choice. From a marketing point of view the name Margo-Redjo served its purpose, since the company catered predominantly to the Javanese population during the first years of its existence.

dealt with the problems it encountered. Margo-Redjo was owned by the Chinese entrepreneur Tan Tiong Ie, a distant descendant of *Juragan* Bing or Captain Tan Bing who arrived in Java at the end of the eighteenth century.[52]

Tradition has it that Tan Tiong Ie's great-grandfather, Tan Bing, arrived in Semarang around 1790 (Tan 2002). Before settling down he had apparently been active as a professional seafarer, for throughout his life and thereafter he was known as *Juragan Bing* or Captain Bing.[53] According to Liem Thian Joe, Chinese and Javanese alike tended to use this honorary title when referring to the respected patriarch of the prominent Tan family (Liem 1933: 71). Although we are left in the dark as to the exact reasons why Tan Bing decided to come to Java, it seems obvious that he must have encountered serious misfortune as Liem states that he arrived "with empty hands" (*dengen tangan kosong*) and had to earn his living engaged in petty trade.

Through much effort he managed to collect some money, which he invested in his own *warung*. His business expanded and earned him enough money to make a bid for the teak-cutting concession. This lease proved to be his big break. Much profit (*kaoentoengan banyak*) accrued from this investment which he used to enter the sugar business. Tan Bing bought and developed land for the cultivation of cane upon which he built several sugar mills that employed dozens of people. The manufactured sugar found its way to the market places of Central Java and his trading network was drawn in ever wider circles around Semarang. In the end it comprised towns like Kendal, Demak, Kudus, Salatiga, Magelang, Yogyakarta, and others (Liem 1933: 71–72).

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[52] This assertion is confirmed by two genealogies of the Tan family in possession of the author which were kindly provided by Tan Tjoan Ik and Kwee Hui Kian. See also Tan Tjoan Ik's personal account *Op zoek naar Tan Bing* ("In search of Tan Bing") written in 2002 and available in the library of the Koninklijk Instituut voor Taal-, Land- en Volkenkunde (KITLV) in Leiden.

[53] Nothing can be said with certainty about Tan Bing's whereabouts before his permanent settlement in Semarang. He might have participated in the Bali trade during the eighteenth century, since Knaap in his study of the *Pasisir* trade mentions a Tan Binko who would sail his vessel or *pencalang* in 1776 between Juana and Bali from his home base Gresik, trading in salt, rice, nuts, opium and weapons. However, the VOC archives around that time show several seafarers registered by the name Tan Binko. Approximately 19% of all Chinese skipper' names indicated members of the Tan clan (Knaap 1996: 1–3, 34, 60, 62). According to Hoetink, the suffix *ko*, *lo*, or *kong*, attached to the names of many prominent Chinese, were respectful addresses to be translated as "elderly brother", "elder" and "venerable sir" (Hoetink 1917: 371–372).

Tan Tiong Ie was born in 1883 in Semarang where he went to a Hokkien school in order to receive a Chinese education. Initially, he ventured into the salt business, but according to family history this business endeavour failed. The salt lease he had acquired left him completely broke and he took his family to Bandung to start over in all anonymity. He operated a small bakery there for a brief period, but hawking his own bread brought him desperately little. After a while, Tan Tiong Ie returned to Semarang where he founded a small ice factory. Again, he met with little success, but his luck finally changed when he decided to try his hand at coffee around 1928.[54]

Margo-Redjo was active in coffee production and coffee trade. The company roasted coffee beans, packaged the finished product and subsequently sold the coffee to wholesale and retail traders. Since no account books appear to have survived, little can be said about the company's growth. No data exist concerning the first two decades of its existence. However, Margo-Redjo turned out to be successful as Tan Tiong Ie earned himself an entry into a Who's Who of well-known Chinese entrepreneurs in Java published in 1935. In this book Tan Tiong Ie is portrayed as the first Chinese entrepreneur to export coffee to other countries. This export business is said to have amounted to one million kilos of coffee each year (*Orang-orang Tionghoa* 1935: 142). According to Tan Tiong Ie's grandson, Margo-Redjo had by then become the largest coffee roaster in Java.

How did Margo-Redjo manage to achieve this at a time of severe economic distress? Since Tan Tiong Ie had started from scratch and did not operate other businesses, it seems unlikely that he had large capital funds at his disposal. Surviving letters indicate that the NIEM financed some of his business, but only for small amounts. The Borneo-Sumatra-Handel-Maatschappij (Borsumij) was among Margo-Redjo's coffee bean suppliers. Though some money might have been advanced, there is no reason to assume that huge sums were involved. However, the small archive still in the family's possession gives another possible explanation for Margo-Redjo's success during a period of economic hardship.

The key to the company's success appears to have been its clever marketing strategy. First, Margo-Redjo produced different qualities of coffee which were sold under different brand names. The lesser the quality, the cheaper the brand. Tjap Grobak Idjo was the cheapest, while Tjap Margo-Redjo was the most expensive. In between there were other brands, such as Tjap Pisau, Tjap Orang-Matjoel, Koffie Sentoso, Koffie Mirama and

[54] E-mail from W.W. Dharmowiyono (Tan Swie Ing) on 11-11-2005.

Koffie Sari-Roso. Second, Margo-Redjo stressed the fact that it customized the packaging size of its coffee. After all, the needs of wholesale traders, retail traders and individual customers strongly differed. This proved a strong point since this strategy was not yet common practice. Third, the distribution network of Margo-Redjo was well developed. Not only did it reach as far as Singapore, Makassar, and Lampung, but especially in Java it reached the smallest of places. This was seen as an important contributing factor in the company's success. Fourth, retail traders received their order with special labels stating their names, so that each package sold added to their reputation as well. Fifth, Margo-Redjo put much time and effort into advertising its different products, placing ads in newspapers, participating in exhibitions, etc.

Still, more was required in order to build a relationship with the customer in the street. Retail traders were therefore encouraged to combine sales by promising customers a free item, such as milk when they bought one of Margo-Redjo's brands. Another tactic was to hand out a coupon whenever a customer bought a specific brand; five coupons earned the customer a tea cup, 75 coupons a *kebaja*, 150 coupons obtained a *kain batik aloes* (a very fine piece of dyed batik cloth), and so on. At the Pasar Malam held in Semarang in 1930, a contest was organized offering a price of *f* 100,- for the person collecting the most labels of Tjap Orang-Matjoel.

By using these methods Margo-Redjo enhanced its reputation and increased its turnover. Given the small margins on coffee, profitability rested primarily upon a high sales level. Maintaining this was of the utmost importance and the marketing strategy aimed to do just that. The more people knew about Margo-Redjo's coffee and the more they appreciated its quality, the more coffee would be sold. After all, many purchases of relatively small amounts would boost sales and thereby help achieve sufficient turnover. Though lacking the financial resources of companies like Internatio, Margo-Redjo's creativity thus paid off.

This well-designed marketing strategy put Margo-Redjo in the forefront of a development that was slowly changing the way of doing business in the Netherlands Indies. The importance of building a relationship with (potential) customers had always been acknowledged by businessmen, especially in the trading sector where competition was particularly intense. It was a well-established strategy to protect sales figures. However, the aim of increasing turnover by matching product and client through a concerted marketing effort was something new which received special impetus in the 1930s because of the prevalent economic crisis. With less and less money to spend, consumers needed to be enticed into the shop

and convinced that they could not make a better buy anywhere else. Simply advertising the existence and/or superior quality of certain products, while occasionally offering discounts, would not do the trick. Catering to the needs of the consumer at a time of economic hardship required a complete marketing concept which necessitated a break with past business methods as well as a different mentality.

During the 1930s Japanese retail traders in Java excelled at this new marketing approach to their great benefit. Their remarkable success was met with a mixture of fear and curiosity on the part of the Chinese and Dutch business communities. To assess the changing situation, Internatio's management ordered an investigation into the activities of Japanese retail traders in Java.[55] E.F.J. Nater and W. Folkers – deputy managers at the Batavia office – were assigned this task and travelled all over Java to conduct interviews with Chinese and Japanese businessmen alike. In June 1933 they submitted their report in which they made several interesting observations. According to them, Japanese shops managed to attract more public for a number of reasons, such as the use of alluring displays, a bigger choice of products and low fixed prices. More aware of the need to appeal to the taste of the consumer, Japanese shopkeepers actively searched for the right combination, concentrating on the needs and wishes of potential customers in order to get as many people as possible to pass their doorstep. Chinese shopkeepers took a more passive stance, convinced that customers would come to their store anyhow.

As a result Japanese shops differed sharply from Chinese. Most Chinese shop houses were rather scruffy, badly maintained and hardly inviting. Inside, chaos loomed as products were piled haphazardly, making it impossible for customers to move freely and look at the merchandise before deciding what to buy. Frequently, goods were unavailable as stocks were only replenished when they had run out. In addition, prices often needed to be negotiated. By contrast, the Japanese shop looked neat and clean. Goods were priced and usually displayed in windows and glass cases, allowing the customer to walk around and get an idea of the available products. Furthermore, most Japanese shopkeepers sold their merchandise at fixed prices and, if possible, kept large stocks (Post 1991: 252–253, 255; Post 1993: 149; Post 1996: 307–309).

These visible distinctions were very important, but Nater and Folkers also stressed that the Japanese business mentality fitted the prevailing

[55] BI/DJB 3354 Nr. 28.

economic conditions better than the Chinese. According to one of their Japanese interviewees, Chinese shopkeepers were primarily interested in making a quick profit. When a potential client entered their shops they would immediately ask themselves how much he or she might be worth and whether or not he or she was aware of the prevailing prices. The Japanese, on the other hand, followed a different tactic. They focused on winning the trust of all their clients, including the smallest ones.[56] After all, a customer buying for only one cent could come back another day with more money in his pocket. The ambiance of the shop (neat and clean with goods displayed attractively) and the fact that prices were fixed, were of crucial importance in earning this trust. As a result, Japanese shops attracted many customers, mostly at the expense of the Chinese, at a time when every client was needed in order to keep turnover high.

The fact that Japanese retailers did much better than their Chinese counterparts was swiftly recognized, but initially their example was hardly followed. Although complaining loudly, the Chinese business community was slow to react. Many voiced the opinion that little could be done against the Japanese since they were part of a giant organisation supported by the Japanese government.[57] This conspiracy theory fitted the general mood in the Netherlands Indies which considered every Japanese citizen a potential spy (Haslach 1985: 107–133, especially 125–126; Post 1991: 243–244). In addition, at the height of the crisis most Chinese businessmen were more concerned with surviving the economic slump than dealing with growing Japanese competition.

Still, there were exceptions to this rule as the case of Margo-Redjo clearly shows. Another example of a change in Chinese business perception can be found in the publication of a new magazine in Batavia by Liem Kha Tong in 1932: *Maandblad Reclame & Efficiency Dagang*, or *Monthly Magazine for Advertising & Efficiency in Trade* (see Box 6.1).

The magazine offered its readers articles on marketing and finance, with the aim of informing them of the latest developments and newest insights in "salesmanship, window dressing, personnel training, efficient management, etc. […]". (*Orang-orang Tionghoa* 1935: 199–200).[58] For

[56] As early as 17 June 1922 the Batavia newspaper *Kabar Perniagaan* already criticized the surliness and indifference with which the Chinese treated their customers contrary to the Japanese who attracted much more customers – especially indigenous customers – because of their friendliness (ANRI/BB 656 Nr. VI).

[57] Ibidem.

[58] *Maandblad Reklame & Efficiency Dagang*, March 1935.

Box 6.1. Names and subtitles of *Efficiency* magazine.

RECLAME & EFFICIENCY DAGANG
Soerat kabar boelanan boeat sasoeatoe orang jang ingin madjoe dan dapet succes die Doenia Dagangan, Peroesahan dan Pengidoepan. Boeat besarken Kaoentoengan! Madjoeken Peroesahan! Tambah Pendjoealan! Dapetken Langganan-langganan baroe! Ketjilken Onkos-onkos! Tambah Kehasilan!

ADVERTISING AND EFFICIENCY IN TRADE
A monthly magazine for the person that wants to move ahead and become successful in the World of Trade, in Business and in Life. Increase your profit! Advance your Business! Increase sales! Get new Customers! Decrease your Costs! More Result!

In January 1933 the name and subtitle of the magazine were changed into:

EFFICIENCY
Maandblad boeat orang-orang jang Actief.
Efficiency (batja: ef-fi-si-en-si) adalah Pengetahoean jang paling baroe, jang toedjoeannja: dengen tenaga atawa onkos jang paling ringan, dapetken hasil jang paling besar. Efficiency perloe digoenaken dalem Pengidoepan dan Perdagangan boeat dapetken: Succes, Keoentoengan, Kemadjoean dan Kebroentoengan.

EFFICIENCY
A monthly magazine for Active people.
Efficiency (read: ef-fi-si-en-si) is the latest Knowledge with the purpose of achieving the best result with the least energy and cost. Efficiency is needed in Life and Trade in order to achieve: Success, Profit, Progress and Luck.

Source: Efficiency, 1932, 1933 and March 1937.

instance, advice was given on how to improve the lighting of products within a shop. In the words of Liem Kha Tong: *Penerangan jang baek bisa bantoe menambah pendjoealan* [...] *Di bawah ini ada 12 nasehat boeat perbaekin penerangan dalem toko.* ("Good illumination can help to increase turnover [...] Below are 12 tips on how to improve the illumination inside the shop.").[59] Other series of articles focused on the acquisition of capital for trading purposes, the increase of turnover as an important source of

[59] Ibidem, October 1934.

profit, or how small shops could maintain profitability and carve out an existence alongside the larger department stores.[60]

Wholesale traders took note of these new initiatives. As we have seen, Internatio investigated the success of Japanese retailers. Geo. Wehry took a different approach by actively encouraging its clients, i.e Chinese retail traders, to modernize their business along the lines described in Efficiency. The company started its own trade magazine with the name *Geo. Wehry & Co. Tsa Chih* in January 1933 (Box 6.2).

Unsurprisingly, the first issue opened with an article on retail trade: *Sedikit Nasehat oentoek Perdagangan Etjeran* (Some Tips regarding Retail Trade).[61] According to the unknown author, retail trade constituted the most important field of work for the Chinese, and one in which they had held a monopoly for many centuries. However, lately there had been signs of change and a strong warning was issued:

> Biarpoen detailhandel sekarang boeat bagian jang paling besar masih berada dalem tangan Tionghoa, toch soeda kanjata'an, bahoea itoe monopolie jang doeloe begitoe tegoeh, skarang soedah moelai goempoer. Bangsa Indonesier, bangsa Blanda, dan teroetama bangsa Djepang, sekarang lagi bergiat boeat mendapatken kadoedoekan boeat karoegiannja bangsa Tionghoa.
>
> Although the retail trade at the moment is still for the greatest part in the hands of the Chinese, the reality is that this monopoly, which used to be so strong, is now starting to waver. Today, the Indonesians, the Dutch, and above all the Japanese are eager to take over the position lost by the Chinese.

Box 6.2. Name and subtitle of Geo. Wehry's trade magazine.

| |
|---|
| GEO. WEHRY & CO. TSA CHIH<br>Soerat-kabar jang diterbitken 14 hari sekali oleh firma Geo. Wehry & Co. goena mengenalken itoe perhoeboengan persobatan dengen iapoenja sobat[2] dan langganan-langganan. |
| GEO. WEHRY & CO. TSA CHIH<br>A magazine published every two weeks by the firm Geo. Wehry & Co. to show the friendly relations it possesses with friends and long-standing customers. |

Source: *Geo. Wehry & Co. Tsa Chih*, I 1 (January 1933).

[60] Ibidem, March 1935, April 1935 and May 1935.
[61] *Geo. Wehry & Co. Tsa Chih*, I 1 (January 1933).

To prevent this a change of course was urgently needed and *Geo. Wehry & Co. Tsa Chih* provided some of the tools required. In the magazine series of articles were published dealing with law (*Kehakiman oentoek Soedagar*), window dressing (*Kita poenja Etalage*), or marketing in general (*Toean Toko...* Awas*!*) which discussed such aspects as the proper use of display cases, good lighting and advertising.[62]

Geo. Wehry also paid specific attention to its *Langganan-langganan* or long-standing clients, whose custom was considered of vital importance to maintaining current turnover levels.[63] Although their loyalty had been appreciated before, it was at the time valued even more because of the bad economic situation. To celebrate the loyalty of these men and women, each issue of *Geo. Wehry & Co. Tsa Chih* printed a photograph of a client with whom the company had traded for more than twenty years. These portraits showed the proud owner of a shop with the following text in Malay: *Sobat*[2] *dengen siapa kita soeda berdagang lebih dari 20 taon* (Friends with whom we have traded for more than 20 years). With some Geo. Wehry had maintained business relationships for over 40 years. Djie Hong Swie, a trader in textiles from Surabaya, held the record, having traded with Geo. Wehry for 45 years. According to the text under his picture, he was a personal friend of the partners and highly respected by all.[64]

To what extent the endeavours mentioned above managed to turn the tide remains unknown, but their contribution to the survival of trading business in general cannot be denied. Margo-Redjo's success during the height of the crisis testifies to this. However, there were other forces at play during the 1930s. The competition of Japanese traders, for instance, was successfully curbed by the introduction of the Crisis Import Ordinance of 1933 which reduced Japan's share of imports from 32% to 15% in 1937. It would have been impossible for an invigorated Chinese business mentality to achieve the same result in such a short period of time. The importance of government measures was exceeded by the worldwide

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[62] *Geo. Wehry & Co. Tsa Chih*, I 1-2 (January 1933); *Geo. Wehry & Co. Tsa Chih*, I 12 (June 1933).

[63] See Willmott (1960) for the importance of the *langganan* system in establishing trust relations. Willmott defines a *langganan* as a regular client/customer or his opposite, the regular dealer/supplier. According to him the *langganan* businessman and his client enter into an explicit or implicit agreement to trade exclusively with each other in a certain field, as a result of which they develop a prolonged acquaintance, mutual obligations, considerable trust and even friendship (Willmott 1960: 70–71). Confirmation of the above can be found in SMGI/Boer 1170.1–3.

[64] *Geo. Wehry & Co. Tsa Chih*, I 12 (June 1933).

improvement of economic conditions during the second half of the 1930s. Once price levels started to climb, trading soon recovered its profitability (Table 6.1 and 6.2). This could not have been achieved by good illumination, nice show cases or courses on window dressing alone. However, under the improved economic circumstances the promise of these new initiatives might have been fulfilled.

Unfortunately, the occupation of the Netherlands Indies by the Japanese in 1942 prevented this. The short period before the war failed to see the successful implementation of the new ideas within the trading sector at large. More time was needed to change the way people conducted their business. Margo-Redjo's lead over the competition could have served as an example, but with the arrival of the Japanese the advantage the company had once enjoyed immediately vanished.[65] The disruption of its business was initiated in February 1942 when the Dutch destroyed most of the firm's machinery as part of a planned scorched earth policy. Following the defeat of the Dutch, all goods in storage were looted and never returned.[66] Outstanding debts could no longer be collected and were largely written off. Margo-Redjo's business activities thereby came to a halt. When the war ended the company had to be built again from the ground.[67] No compensation was ever obtained from the Dutch government for the loss of its machinery.

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[65] Private archive Margo-Redjo; Interview W.B. Dharmowiyono, 04-12-1999.

[66] See for a general description of the chaotic events in Java and more specifically Semarang during the Japanese attack Brugmans et al. (1960: 102–103, 119–128, 253–283), De Jong (1984 Vol. 11a: 649–650, 978–983) and Twang Peck Yang (1998: 70–74). A graphic presentation of the Japanese conquest of the Netherlands Indies can be found in Cribb (2000: 150).

[67] Operated by W.B. Dharmowiyono (Tan Tjoan Pie), a grandson of Tan Tiong Ie, the company today is still producing coffee under the brand name *Mirama*.

Fig. 6.4. Five guilder banknote of De Javasche Bank, 1934. Front side showing a male dancer of the Wayang Wong theatre of Central Java. Back side showing batik motives and text in Dutch, Chinese, Arabic and Javanese script. Design by the Dutch artist C.A. Lion Cachet. Printed by Joh. Enschedé en Zonen.

The banknote is a powerful symbol of trade and finance. The image of the Javanese dancer provides a glimpse of the Asian environment in which colonial Dutch institutions such as *De Javasche Bank* operated. The text on the backside warns against counterfeiting. The fact that the warning was issued in four different languages and scripts is indicative of the complexity of colonial business relations within the Netherlands Indies.

CHAPTER SEVEN

# CONCLUSION

## *A Bird's-Eye View of Colonial Trade*

During the nineteenth century private enterprise operated in an economy under substantial control of the colonial state. State mobilization and exploitation of the economy through the Cultivation System lasted for decades and greatly boosted the export sector of the Javanese economy. Java became a major exporter of agricultural commodities. The government accounted for the lion's share of these exports which were shipped and auctioned by the NHM, the administration's sole contractor.

Though marginal compared to government business private trading enterprise did not disappear from the economic scene. The production of agricultural export commodities at the large private estates in Java was significant and their owners were under no obligation to market the cultivated produce through the NHM. The government's failure to monopolize the economy was reflected in the expansion of the private trading sector during the 1840s. The government's share in the export trade steadily decreased until the value of government and private exports equalled each other for the first time in 1860. In 1885 the value of private exports was already ten times larger.

Private enterprise in Java around 1850 faced many uncertainties which put a trader's personal skills to the test. Within trade it was of prime importance to obtain the necessary capital, information and security. Chinese traders – vulnerable as a minority group with little political leverage – understood these basic facts. Aided by their family and *kongsi* base they accessed all three elements through their intermediary trade function and valued the frequent contacts with Western and Asian business partners.

During this early period poor access to capital proved a major impediment to a smooth functioning of trade. The economic growth initiated by the Cultivation System led to increased demand for credit which was difficult to satisfy given the insufficiency of existing credit facilities. In addition, the government ceased to act as a provider of credit after the abolition of the Cultivation System. Internatio's start-up problems illustrate the trading

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problems in Java prior to 1870 due to insufficient finance opportunities. The establishment of several banks in the Netherlands Indies between 1857 and 1863 was a first step, but the capital base upon which their operations rested was humble compared to the existing demand for credit.

After 1870, private enterprise was allowed more freedom and financing the resulting investment drive created numerous opportunities for banking. With more experience, an enlarged operating field and the promise of significant profits the financial sector expanded. Trading firms had less difficulty in meeting their capital needs which enabled them to escape the permanent squeeze of credit demands from buyers and suppliers.

Answering the credit needs of the trading sector required the build-up of control mechanisms. The trading companies needed to assess the validity of credit requests as well as the risk of losing their outstanding capital. The same considerations concerned the banker once a trader applied for credit. Protecting capital outlays through a control mechanism was crucial to the survival of those participating in trade. A never-ending search for security was the result. Credit was not extended without collateral in the form of property, or a range of different commodities. Frequently, a loan had to be guaranteed and co-signed by another individual considered sufficiently solid and trustworthy.

Complete security was an illusion and there always was an element of uncertainty. To eliminate the risks as far as possible, traders and bankers would search for information. Since businessmen were allergic to probing questions, information often had to be distilled from rumours and hearsay. The high sensitivity as well as the personal sphere in which it was transmitted, kept information gathering low-profile and dependent on the skills and networks of those involved. In addition, culture and language barriers undercut this feeble control mechanism. Van Beek, Reineke & Co. tried to deal with this situation by securing the help of Major Aydiet. Traders and bankers needed each other and prudence had to guard against reckless and speculative behaviour.

The Agrarian Law of 1870 opened Java to private exploitation and commercial agriculture continued to expand. Sugar and coffee dominated this agrarian export economy. These commodities were also of immense importance for the prosperity of Java in general. Huge sums were invested in their cultivation and trading, involving large and usually interconnected vested interests. When the prices for sugar and coffee collapsed in 1884 a total breakdown of the economic system in Java was at hand.

The widespread impact of the crisis revealed the complexity of existing capital arrangements. These had resulted in a web of dependency

relationships between bankers, traders and planters. G.L. Dorrepaal's professional career illustrates the interconnections within the commercial world of Java. He was a master of many trades: a planter, a trader, and a banker at the same time. At different stages in his life, his network of connections clearly facilitated his access to capital, information and security.

The core of Java's personalized business structure was the demand for capital as well as the shortage of it. The import and export trade thrived on credit which acted as a lubricant for the trading sector and for the entire economy. Access to sufficient capital was a precondition for the functioning of the economic system. World market conditions before 1884 created a strong demand for products from the Indonesian archipelago for which the working capital was eagerly supplied by financial and trading institutions. Money poured in, stimulating significant monetization of the economy and the concomitant demand for imports: imports supplied by wholesale traders on credit.

The credit needs of expanding business did not correspond with existing credit facilities. The required amount of money proved a considerable drain on the moneylenders' resources, whether trading company or bank. For fear of tying up too much of their capital resources, they put short time-limits on outstanding loans. In the case of export agriculture this came down to financing long-term investments by incurring short-term debts. These loans were customarily prolonged and/or renewed upon their expiry date, leading to an increasing accumulation of debtors, creditors, and guarantors. This should have cautioned all concerned, but with the prospect of profits the security aspect was ignored by most participants.

The financial crisis of 1884 put in place a more sensible way of conducting business. Bankers and traders could respond to the credit needs of enterprises by providing either long-term or short-term credit. After the crisis this distinction was better understood. The *Cultuurbanken* (Cultivation Banks) came to focus exclusively on long-term commitments within export agriculture. The general banks and traders strengthened their ties with each other, while keeping an interest in agricultural business on a short-term basis only. Such a clear distinction had not existed before the crisis.

The financial restructuring of the agrarian export sector did not end the crisis. The consequences for the import side of the economy appeared negligible at first. Many shared the belief that the crisis was a momentary deviation caused by short-term speculation on the part of wholesale exporters. However, in the following years the import sector was hit by numerous bankruptcies in which Chinese traders figured prominently.

The European wholesale traders experienced problems in reclaiming their outstanding loans. Consequently, wholesale importers had to curtail expenditure, because of outstanding debts, but also because capital had become less available. Because of the crisis, the banks were more careful than ever in approving requests for credit.

Under these circumstances there was a growing need for systematic retrieval and storage of information. Bankers and traders alike paid scrupulous attention to any news regarding their clients. In the case of DJB inspection of its agencies and their clientele was conducted regularly, but the economic circumstances and the increasing complexity of business demanded up-to-date information at immediate disposal. To ensure adequate information retrieval, all agents were ordered in 1890 to keep records of their clients in so-called 'information books'. By giving an overview of a client's financial position, the register would greatly facilitate future decisions regarding proposed transactions.

Security enhancement of this kind was also sought by a refinement of regulations concerning credit extension. With bankruptcies rising DJB was particularly aware of the need for surety. Each loan had to be covered to limit the risk of financial loss. The case of Sing Liong & Co. showed there was much room for improvement. The problem remained how to anticipate changes influencing the conditions under which credit had been extended. This required an improvement in monitoring. The function of controller was created for this purpose, while a detailed and standardised set of instructions for controller and keeper replaced the old ad-hoc guidelines.

These reforms protected DJB better against future bankruptcies. The trading sector aspired to similar regulations to guard their interests more efficiently. However, the trader's position was different since he operated in a fiercely competitive business environment. No trading company could act as independently as DJB. A significant reduction of risk could not be achieved by internal company measures only. Attempts to join forces however failed because of the fierce competition.

The economic alliance between the Dutch and the Chinese was long-lasting and profitable. Revenue farming became the institutionalized form of this alliance. Chinese were favoured to run these farms because of their ability to establish syndicates with sufficient capital and expertise to guarantee successful management. The Chinese dominance of the revenue farm contributed to anti-Chinese feelings and soon extended to the activities of Chinese hawkers. In a society short of cash their trade was conducted on the basis of short-term credit with corresponding high

interest rates. Depending on the accumulation of many tiny profits and unable to draw on the support system of local society debt collection was essential, problematic, and unappreciated by the debtors.

The strengthening of the colonial state during the nineteenth century led to an increase in the leverage of the colonial bureaucracy. Soon the logic of farming-out tax revenues was seriously questioned. The attitude of the Dutch administration towards the Chinese in general became decidedly negative. This image was fuelled at the end of the century with the formulation of the Ethical Policy. Accusations against the rapacious activities of Chinese traders and money-lenders peaked at the time even though it was conceded that the Chinese remained indispensable as so-called 'funnels of trade'.

In 1892 an inquiry into the economic position of Chinese and Arabs in Java and Madura was ordered. This investigation showed the dilemmas Dutch policy makers faced in dealing with this section of the population. Although many welcomed a reduction of the 'harmful' Chinese presence, it was understood that they occupied a key position within the economy. The Chinese businessman was acclaimed for his skills in the accumulation of capital, his solid command of business (above all credit and money transactions) as well as his keen sense of customer preferences that depended upon their close and repeated contacts with the indigenous population. Given the fierce competition their turnover depended on a profound knowledge of the market in which they operated.

The distribution system was driven by the repeated extension of credit and determined by the debtor's creditworthiness. Chinese creditors safeguarded their interests by extending only small loans with a limited running period and favouring a diversified investment strategy that put their capital in the hands of numerous small debtors. Chinese traders' losses in cases of bankruptcy were thus relatively small. European traders at the fringes of indigenous society experienced more trouble in gaining access to reliable client and consumer information. This reinforced their tendency to cherish the few reliable contacts painstakingly made and place great trust in them.

The Dutch put much effort into keeping the Chinese in check. For a while they believed they had found the solution to the Chinese problem in the abolishment of the revenue farms and intensified restriction on Chinese freedom of movement. These measures did not improve the situation. With the demise of the revenue farm the farmers lost the (in)direct profits accruing from their monopoly position. Equally threatened was their elaborate business organization in the countryside which had

guaranteed them access to Java's rural markets. The tightened pass and zoning regulations administered the final blow. These restrictions affected not only the wealthiest Chinese entrepreneurs, but the entire Chinese commercial sector.

A wave of failures among Chinese traders, all heavily dependent on rural markets, occurred in the immediate post-farm period. Chinese small traders could no longer move freely and sold fewer goods while collecting fewer outstanding debts. This obstruction of their activities led to a rapid decrease in turnover. Many petty traders defaulted with their wholesale patrons. In turn they were forced to default with the Western trading companies from whom they had received advances. Having just recovered from the commercial breakdown of the late 1880s, the European trading sector found itself badly equipped to weather the upcoming storm of defaulting clients.

Contrary to DJB, the European traders lacked a mechanism of risk reduction, because of their sheer number and the extreme competition between them. None was in a position to decide independently and dictate the conditions under which the market should operate. The requirements of the job forced all traders into a position with little room for manoeuvre. Only a true crisis situation would encourage cooperation in order to survive. Such a rare occasion occurred in Surabaya in the 1890s when Chinese bankruptcies saw Western import houses flock together to limit their loss and search for ways to enhance their security. Western calls to relieve the Chinese movement restrictions seem to have had the desired effect.

Despite all the problems, economic co-operation between the Dutch and Chinese continued. The twentieth century did however witness the rise of a more assertive Chinese trading generation. This change in mentality resulted from a complex emancipatory process. With their economic position and public image under repeated attack, and inspired by movements in China itself, the Chinese felt a growing need to protect their interests. They started to confront the Dutch with the strength of their associations. This was realized by founding Chinese chambers of commerce and by pressuring Dutch companies if need be. The Chinese community was no longer fragmented and inarticulate, although it took the Dutch some years and well-executed boycotts to recognize this.

At the start of the twentieth century the trading sector's outlook was grim. A steep price fall of agricultural products on the world market had diminished the profitability of the export branch. The exporters were highly dependent upon the fortunes of agricultural enterprise and had to

accept low price levels and wait for better times. The import side of the economy was equally bad. The steadily decreasing purchasing power of the population put the operations of wholesale and retail traders at risk and led to the downfall of many. Every year saw numerous bankruptcies which owed much to the prevailing system of credit extension.

Better export conditions had to wait until 1905 while import conditions started to improve in 1907. The economic change was export-driven and derived mainly from a significant improvement in the colony's commodity 'terms of trade', i.e. the prices of export goods on the world market rose faster than the prices of import goods. This provided a powerful impetus for export producers to expand supply to the world market. The HVA among others took advantage of the upswing on the export markets and abandoned its trading activities to bet everything on agriculture.

The outbreak of the First World War seemed to threaten economic progress but initial fear was curbed with the help of DJB. The period 1914–1918 witnessed a realignment of exports and imports towards Asia and the United States. This was only partially reversed after 1918. The successful redirection of commercial activity coincided with benevolent price developments which allowed traders to stay in business. Importers and exporters enjoyed a period of unprecedented profits after the war ended. As a result of pent-up demand prices skyrocketed which coincided with a huge rise in export volume due to accumulated stock. This lasted until the end of 1920 when a fall in prices set in and big losses were incurred.

The revival of the economy after 1922 was again export-driven as world demand increased for precisely those goods that the Indonesian archipelago could supply. The Java-based sugar industry was particularly important in this respect. Rapid population growth, rising incomes and higher standards of living bolstered demand for sugar in Asia. The most promising markets were found in British India, China and Japan. Java's sugar production and export exploded which required huge capital outlays from planters and traders alike. In response, a surging need for credit developed accommodated by the banks in the Netherlands Indies.

Bank loans played an important role in trade expansion. The main purpose of lending was to finance the movement of trade and the growing of crops. Valued by both sides, the connections between trading companies and banks tended to be long-term and supportive. They were sustained over long periods and relied on contracts as well as trust. Risk assessments rested on bank managers' opinion of company management, together with the degree of trust which they felt could be awarded. Loans still needed to be secured, but this was frequently done in a rather informal

fashion. Trading companies were appreciated long-term customers and banks were prepared to be flexible.

During the interwar years most banks were heavily involved in financing the expansion of trade. Driven by competition and unable to resist the opportunities for profit, capital was often supplied on questionable conditions. This situation lasted until the increase in production could no longer balance the downward price movement for export products. At the end of the 1920s the export bubble burst. To safeguard their interests the banks showed a willingness to support trading companies in serious financial problems. On several occasions they intervened directly in the affairs of their clients and became involved in reconstructions or liquidations of collapsing trading companies.

In general the 1920s formed the heyday of the colonial trading system, certainly with regard to the export trade. Western and Chinese commerce were at the core of this system. The occasional strain that was put on inter-ethnic trading relations did not prevent the interdependency of both spheres. In times of economic prosperity this situation could easily give rise to instances of collusion. The necessary capital to finance business transactions was readily given even when these investments were hardly warranted as seen from the example of the Kwik Hoo Tong Handelmaatschappij (KHT).

Throughout the 1920s KHT profited from high world demand for sugar and the outstanding performance of the Java sugar industry. With excellent supply conditions at home and lucrative prices abroad the commercial banks were keen on financing the sugar trade. This explains why a highbrow institution as DJB accepted almost anything from a big client like KHT and overlooked occasional chicanery. This changed with the collapse of the Java sugar industry during the 1930s. The unaccounted transfer of KHT's capital was no longer acceptable and a long lasting business relationship was terminated.

The most striking economic feature of the 1930s was the loss in value of the colony's export commodities. The colonial economy depended heavily on the export of primary products and was therefore vulnerable to price fluctuations. During the first half of the 1930s export volume and value collapsed and only started to recover after 1935. During the crisis industrialization and the 'Japanese threat' constituted the main themes of economic policy. The Japanese were considered dangerous for the colonial economic and political system. The imposition of import restrictions in 1933 aimed at stopping the influx of Japanese products. The export sector did not escape regulation either. Protectionist measures worldwide forced the

Dutch to impose production restrictions in order to reduce overproduction and falling prices. The colony's traditional free trade policy was abandoned and a strategy of domestic self-sufficiency was formulated with import-substitution and industrialization as its main components.

From a business perspective it should be noted that the 1920s were less positive than usually thought. Bankruptcy statistics show that business fared much worse in the 1920s than the 1930s although economic circumstances were better. This paradox is explained by the fact that the events of the late 1920s were a correction to the massive expansion of business after 1918. After the war optimism and speculative behaviour had reigned. Credit was extended with greater ease against smaller or insufficient collateral. Existing control mechanisms were not functioning properly or overlooked due to the rush of the moment and an enlarged workload.

When world market prices fell after 1925 the banks began to review their existing credit arrangements. They developed a more cautious attitude and companies looking for financial support were subsequently turned down and forced out of business. The exuberance of post-war economic life came to an end. When the crisis of the 1930s struck, most overly ambitious companies had already been successfully weeded out.

The discovery of several cases of fraud by DJB during the first half of the 1920s shows that a reorganization of business was urgently needed. Management agreed upon the need for tighter control on the basis of more detailed information, more inspection tours and the employment of full-time inspectors; regular visits – announced and unannounced – to the different agents had to determine what could be improved.

Once in place the new information system could be tapped at will. Though reminiscent of DJB's information retrieval system at the end of the nineteenth century the inspection reports served their purpose better. Besides providing client information, they touched upon more subjects and were considered more accurate as they were not written by the agents themselves. Towards the end of the 1920s DJB possessed a valuable management tool to direct or redirect a fast growing and complex organization operating in a volatile economic environment.

In the 1930s trading enterprise had to adjust. Internatio succeeded in doing so by increasing its turnover and enlarging its access to security. Many of the opportunities seized by this company materialized as a result of its huge financial resources. Trading companies with no significant capital at their disposal had to look for other options to change the tide. Margo-Redjo's key to success appears to have been its clever marketing strategy. The importance of building a relationship with (potential)

customers in competitive economic sectors had been acknowledged before. Efforts to increase security by matching product and client through a concerted marketing campaign put the company in the forefront of a new development cut short by the advent of war.

### *Trade Dynamics*

This research has focused on the financial aspects of trade and on the main actors participating in it. In general capital and entrepreneurship are considered crucial economic agents. The institutional aspect of capital, whether Asian or Western, was more powerful in shaping economic change in Southeast Asia than state influence, foreign capital inflows or the region's economic vulnerability. Dutch business was characterized by high organizational abilities and benefited from strong financial control, technological advance and sophisticated marketing strategies. Chinese business suffered from fragile governance structures, but could rely on the Chinese business community which was a formidable resource base ideally suited for mediation.

Efficient mediation creates profit. Chinese business passed most of it on to the consumer in the form of low prices. Such a strategy removed inefficient competitors and counteracted anti-Chinese feelings, while masking the profitability of a low margin/high turnover strategy. Most observers focus on the gross margin on sales, but disregard the contribution of turnover to the return on equity as shown in the case of Internatio.

The applied research framework emphasizes the concept of access to capital, information and security. The case studies presented focus upon the behaviour of businessmen and their struggle to survive and prosper in an uncertain and highly competitive business environment. This approach avoids the circular argumentation that clouds the discussion of multiethnic commercial relationships. The issues of capital, information and security are related in many ways and influence each other. In the case of DJB a better information position intended to increase security as a result of which less capital would be lost and more capital could be put to productive use. HVA's decision to free its capital invested in trade served to improve the security of its interests in the plantation economy. The Surabaya traders tried to secure their investments by joining forces, but also by tapping the flow of information in Chinese.

Although the issues of trust and status played their part, it would be wrong to assume that business was conducted entirely on this basis. From

the KHT affair can be concluded that unwarranted trust led to a negative outcome. DJB agents turned a blind eye to Kwik Djoen Eng's business, but at the same time he was never given carte blanche. What constituted the bank's biggest mistake in this case was its failure to provide for more and better information which translated into insufficient security.

Networks played their part as well, but a statistical macro level approach fails to show the trading mechanism behind the numbers and renders invisible the traders and bankers concerned. Reconstructing the network of an individual trader or trading enterprise does solve this problem. However, even if conducted successfully the serious problems of selection (significance) and validity (generalization) remain. This study, however, is not a biography of one person or a single company, but aims to disclose the way wholesale and intermediate trade in Java was conducted. The concept of access nevertheless takes networks into account, as shown by the example of G.L. Dorrepaal's career.

The research has clearly indicated the crucial importance of capital. In this respect, capital can be considered the engine of trade fuelled by interest payments. This metaphor makes it clear that capital was fundamental while information and security were advantageous. Access to information and security alone did not suffice. In addition, systematic information retrieval and security enhancement would have been too costly for most traders. Access to capital enabled anyone to start a business in trade before even considering information and security. Of course, the soundness of such an undertaking was very uncertain and its chances of survival were slim since information and security played an important role. If capital was a prerequisite to start trading access to information and security greatly strenghtened the chances of survival and success.

This study was based upon research in primary sources. For reasons of availability many of these sources were of Western origin and therefore limited. By focusing on 'how' instead of 'why', the research has shown – unsurprisingly – that those participating in trade were in it for the money. Dutch or Chinese traders cared little if their clients were Europeans, Chinese, Arabs, Japanese, Javanese, Sundanese or Madurese. What mattered was the possibility to strike a deal with them. What a trader cared for were the deals he closed and the profits accruing from them. In other words, he cared for his business.

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## *Interviews*

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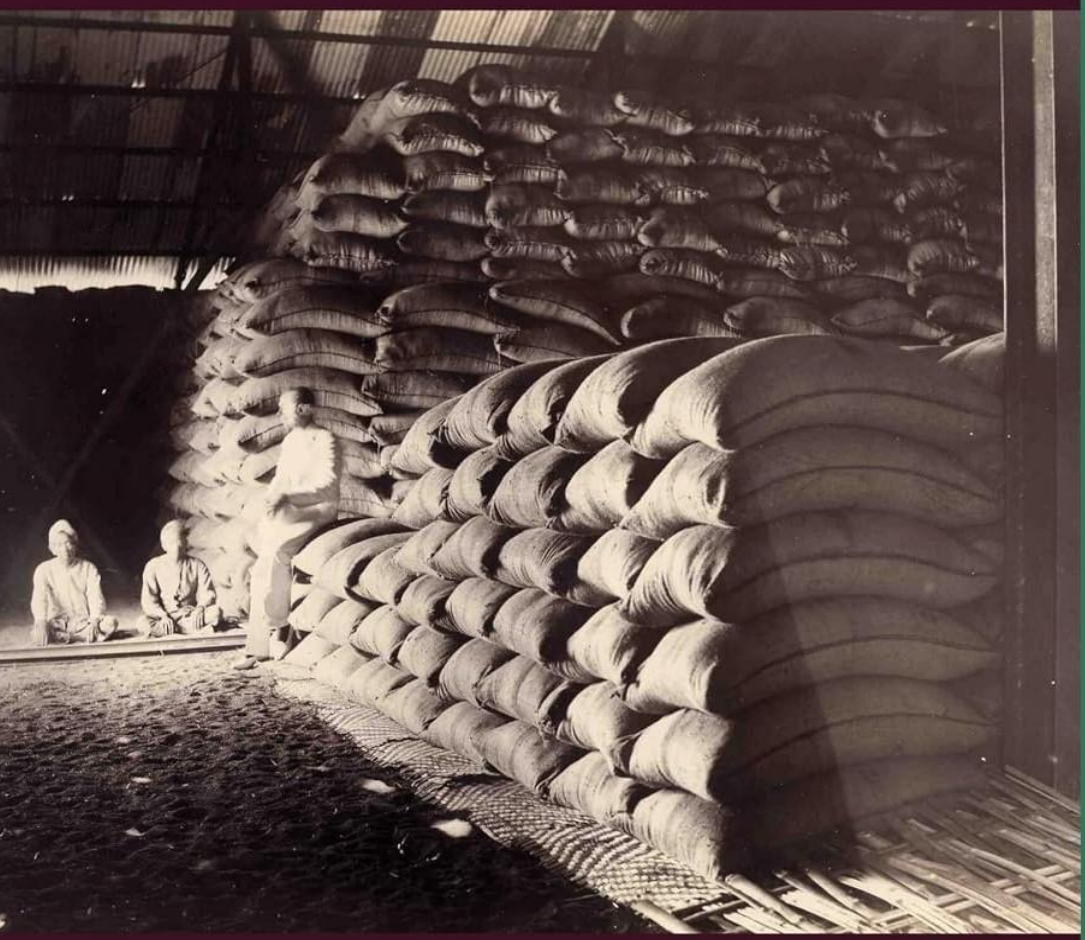
This research has focused on the financial aspects of trade and on the main actors participating in it. In general capital and entrepreneurship are considered crucial economic agents. The institutional aspect of capital, whether Asian or Western, was more powerful in shaping economic change in Southeast Asia than state influence, foreign capital inflows or the region's economic vulnerability. Dutch business was characterized by high organizational abilities and benefited from strong financial control, technological advance and sophisticated marketing strategies. Chinese business suffered from fragile governance structures, but could rely on the Chinese business community which was a formidable resource base ideally suited for mediation.



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